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# FINANCIAL TIMES

World Business Newspaper http://www.FT.com

WEDNESDAY SEPTEMBER 9 1998


**Hotel design**
**Ian Schrager's style – spare, stark and very hip**
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**The world should be worried**
Martin Wolf, Page 15

## WORLD NEWS

### German jobless fall may not help Kohl as election nears

German unemployment is at its lowest for almost two years – but the figures are unlikely to help Chancellor Helmut Kohl as he prepares for the September 27 elections. The number out of work remained above 4m last month, and opposition Social Democrat challenger Gerhard Schröder, said the fall was unsustainable. **Page 16; Corporate Germany, Page 3**

**China claims smuggling defeated**
Beijing claims it has won its fight against smuggling – a victory that could weaken the deflationary forces that have held back growth. **Page 16; Good in parts, Page 14**

**Clinton to meet Democrats**
President Bill Clinton meets Democratic leaders today in what is seen as an attempt to shore up support before Congress receives the official report into allegations of sexual misconduct at the White House. **Page 5**

**Omagh bombers call ceasefire**
The Real IRA republican guerrilla splinter group, which killed 29 people when it bombed Omagh in Northern Ireland, has called a ceasefire. **Page 10**

**Kosovo offensive resumes**
Yugoslav forces renewed their offensive in western Kosovo, one day after the latest US pressure on Belgrade to end the attacks. **Yugoslav flight ban, Page 3**

**India 'needs more time' for treaty**
India is not ready to sign the Comprehensive Test Ban Treaty and needs more time for domestic debate on the nuclear pact, a prime ministerial aide said.

**Japan may launch satellite**
Tokyo is considering launching its own reconnaissance satellite to improve intelligence gathering. **Page 8**

**NZ government wins crucial vote**
Jenny Shipley's minority National government won a crucial vote of confidence in New Zealand's parliament despite news that the economy is worsening. **Page 8**

**Macau bomb injures 14**
A bomb exploded in the Portuguese enclave of Macau, southern China, injuring 14 people who had been drawn to the site by an earlier blast.

**Habibie warns of Indonesia unrest**
Indonesian president B.J. Habibie warned of worsening unrest as students continued to campaign for his removal for failing to end the economic crisis.

**Both sides blamed over Lebanon**
The international group monitoring the conflict between Israeli troops and guerrillas in south Lebanon said both sides had violated the 1996 agreement that bars attacks on civilians.

**White House advocates diplomacy**
Diplomacy should come before economic sanctions when the US seeks to defend its interests or project its influence abroad, the Clinton administration said.

**Court frees Ogoni detainees**
A Nigerian court has freed 20 Ogoni minority activists detained since 1994, their colleagues said. They had faced the same murder charge for which author Ken Saro-Wiwa was executed in 1995.

**Mexico brings in fraud expert**
Mexico's lower house hired fraud specialist Michael Mackey to head a probe into the $65bn banking bail-out of 1995.

## BUSINESS NEWS

### French plan to restructure Crédit Foncier before sale

The French government broke off talks with the last bidder for Crédit Foncier de France, the Paris-based specialist property lender, and said it would restructure the bank before trying to sell it again. **Page 17; Lex, Page 16**

**Share prices** of some of the biggest US financial institutions finally staged a rally on hopes the Federal Reserve might cut interest rates before the end of the year. **Page 17**

**Société Générale** de Surveillance shares fell 20 per cent after the Swiss inspection and testing company announced a 91 per cent drop in first-half net income, to SFr10.3m. **Page 17; Chairman resigns, Page 18**

**Siemens,** Germany's largest electronics group, abruptly called off the sale of its personal computer manufacturing business to Acer of Taiwan. **Page 17; Lex, Page 16**

**Aer Lingus,** the Irish Republic's state-owned airline, is seeking government backing to look for a strategic link with a US-based carrier. **Page 2**

**Japan's** ministry of finance has begun preparations to release a fourth tranche of up to 1m shares in NTT, the country's dominant telecommunications group. **Page 22**

**Williams,** the UK security and fire protection group, said it was on track to pull the promised £40m ($66m) of cost savings from its acquisition of Chubb. **Page 25**

**EMI,** the UK music group, faces growing competition in the bidding for PolyGram Filmed Entertainment (PFE). **Page 18**

**Vendex,** the Dutch retailer, remained optimistic on securing approval from the country's anti-trust watchdog for its merger with KBB. **Page 20**

**Poland's** Gdynia shipyard took its first step to creating one of Europe's largest shipbuilding companies when it bought the assets of the bankrupt Gdansk yard for 115m zlotys ($32m). **Page 20**

**Holderbank,** the Swiss group that is the world's biggest cement company, said first-half net income after minorities rose 32 per cent to SFr290m ($205.5m), with lower operating costs more than offsetting sluggish revenue growth. **Page 20**

**ECI Telecom** and Tadiran Telecommunications, the two leading Israeli telecoms equipment manufacturers, announced merger plans aimed at lifting ECI's presence on world markets. **Page 19**

**Seven Network,** the Australian television group, announced the sudden resignation of Gary Rice as managing director and a 77.1 per cent slump in net profit to A$20.35m (US$12m) for the year to June 27. **Page 19**

**Antolin-Irausa,** a Spanish car components manufacturer, announced plans for a $20m factory in Ramsgate, south-east England. **Page 11**

**Euro Prices**
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets.
**Page 27**

# Wall Street buying spree lifts Dow

## Market rallies amid expectations of interest rate cut by Federal Reserve

**By John Labate in New York and Philip Coggan in London**

Wall Street opened with a frenzy of buying yesterday, sending the Dow Jones Industrial Average more than 300 points higher in the first hours of trading, amid expectations that the Federal Reserve would soon lower interest rates.

Most European markets, which had rallied while Wall Street was closed on Monday, continued their surge, with the CAC-40 in Paris and the DAX in Frankfurt both gaining around 3 per cent.

Investors managed to shrug off fears about the continuing political vacuum in Moscow. But London failed to join in the party, with the FTSE 100 index falling 2.8 to 5,344.2.

By midday in New York, the mood had calmed somewhat. The Dow index of 30 blue chip shares was off its early highs but was still higher by 229.40 points, or 3 per cent, at 7,869.65. The Standard & Poor's 500 had gained 25.43 at 999.32.

The rally in share prices was attributed to comments made last week by Alan Greenspan, Federal Reserve chairman.

Mr Greenspan's comments, made last Friday at a California business school conference, suggested to many that the bias of the Fed had changed in recent weeks, away from tightening to one of more neutrality.

Mr Greenspan suggested that overseas market turmoil is now playing a greater policy-making role than it had in previous months. Some now expect the Federal Reserve could lower interest rates soon, with the next meeting to decide interest rate policy set for later this month.

"Greenspan was the catalyst," said Larry Wachtel, market analyst at Prudential Securities in New York. "You had such extremely oversold conditions last week that it was like dry timber, where something was going to inflame it. Greenspan's comments did it."

The rebound came after two bleak weeks. Major equity indices reached their lowest levels since February as investors reconsidered the outlook for corporate earnings in the face of turmoil in the Russian and Asian markets.

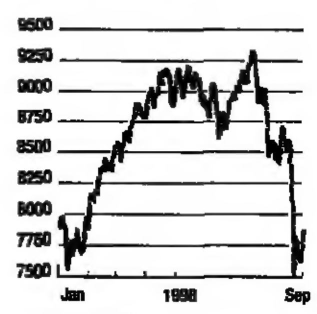
Last week the Dow had its second worst points loss in history, closing down 512 points after a single day's session. That was followed by choppy trading days with record volumes of shares changing hands.

"There are lots of signs of confidence [this morning] that the market was totally oversold, money wants in and the economy is in good shape," said Alfred Goldman, chief market strategist at AG Edwards in St. Louis.

Among the sectors to move strongly higher yesterday were those that suffered the most from last week's sell-off – banking and high-tech stocks. The bank index of the Philadelphia Stock Exchange had climbed more than 4.5 per cent higher by midday, while the Nasdaq composite, which is weighted in technology stocks, was 3.8 per cent higher at 1,626.50.

As US equities rebounded, the Treasury market lost some of its flight to quality. By early afternoon the benchmark long bond was down $\frac{21}{32}$ in price to 102'¹/₈, yielding 5.332 per cent. Last week's rally in the Treasury market sent the yield of the 30-year bond to historic lows, as stock markets around the world plunged.

**Return of Goldilocks?**
Dow Jones Industrial Average




Source: Datastream/ICV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US financial groups rally, Page 17
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AUDIT SUGGESTS $1.25BN GLOBAL SETTLEMENT DOUBLED EARLIER OFFER

# Holocaust bank accounts may have value of $71m

**By Frances Williams in Geneva, David Buchan in Paris and Eric Frey in Vienna**

The value of dormant Swiss bank accounts that may have belonged to Holocaust victims could be about SFr100m ($71m), far from the "billions of dollars" originally claimed by Jewish organisations.

If the estimate – the preliminary result of a detailed audit of Swiss bank records – is correct, last month's deal between Switzerland's two big banks and victims' lawyers doubled the amount the banks earlier offered to resolve the issue of the victims' assets.

UBS and Credit Suisse reached a $1.25bn "global settlement" with US lawyers representing thousands of Holocaust victims and their relatives, to settle all present and future Holocaust-related claims against Swiss banks, industry and the Swiss state.

In June the banks offered $530m, plus whatever sum was found by the audit being carried out under the auspices of a committee chaired by Paul Volcker, former head of the US Federal Reserve Board. In the event, a lump-sum payment was agreed.

Jacques Rossier, of Geneva-based bank Darier Hentsch, said this week that the amount owing as a result of the Volcker inquiry, due to be completed by the end of this year, would be relatively small.

Mr Rossier, who is handling the dormant account dossier for Switzerland's private bankers, said this week that the Volcker committee had so far found "no evidence of systematic misappropriation of funds" by the banks, as some Jewish representatives have claimed. Some of the victims' lawyers argued that the Volcker commission's task was complicated by the possible loss or destruction of documents over the past 50 years.

Mr Rossier said some dormant accounts missed by previous trawls could be uncovered but were expected to be worth no more than several million francs.

The Swiss banks have already published the names of foreign holders of unclaimed accounts worth about SFr70m, of which some 10-15 per cent may have belonged to Holocaust victims.

These accounts are likely to have interest added at the rate of about 3.5 per cent a year, multiplying their value roughly by eight. This would result in a total restitution of around SFr100m for identified Holocaust-related accounts.

Nine out of 10 of all known dormant accounts are held with the two big banks.

In another move towards the resolution of grievances dating from the second world war, the US, France and Britain will wind up a tripartite commission on the restitution of gold looted by the Nazis at a ceremony today in the French foreign ministry.

Since 1946 the commission has returned some 337 tonnes of gold to 11 countries occupied by the Nazis. Its archives will be opened to the public.

The Austrian government also plans to return almost 1,000 works of art from the collection of the Museum of Art History in Vienna taken from Holocaust victims. The Cabinet is expected to approve the plans tomorrow.


When sanctions work, Page 14
Banks pay a high price, Page 4


Russia's power struggle goes on as Communist leader Gennady Zyuganov, above, still resists Boris Yeltsin's plans. Central bank's warning, Page 16

# BSkyB to pay $1bn for UK soccer club

**By Cathy Newman and Patrick Harverson**

British Sky Broadcasting, the satellite operator in which Rupert Murdoch's News Corporation has a 40 per cent stake, will today announce a £625m ($1.03bn) agreed deal to buy Manchester United football club.

Manchester United's board has unanimously accepted the offer despite protests from politicians and fans. The price is higher than expected and was agreed after United's board held out during 36 hours of meetings for a better deal.

The takeover will have to be approved by the government although BSkyB is confident that its purchase of the country's biggest club does not breach competition rules.

On Monday, Peter Mandelson, trade and industry secretary, confirmed that the Office of Fair Trading would scrutinise any takeover of United before advising him whether it needed to be referred to the Monopolies and Mergers Commission.

BSkyB owns exclusive rights to live Premier League football and politicians are concerned that ownership of the league's top club would leave the broadcaster in an unhealthily dominant position within the sport.

BSkyB is paying for the acquisition in an equal combination of cash and shares. United's management is expected to remain in place but it is not known whether Martin Edwards, chief executive, will have a seat on the BSkyB board.

The broadcaster is expected to defend the acquisition as a good deal for football and for the club. United is understood to have accepted BSkyB's arguments that being part of a larger group will allow it to compete more effectively.

Following today's announcement, BSkyB will campaign to win round fans who have attacked the company's motives in bidding for the club.

The company will seek to allay fears about big increases in ticket prices and the prospect of United's games only being available on a pay-per-view basis.

It will stress continuity and say it has no desire to interfere with the day-to-day management of the football club.

The bid will have to be approved by the club's shareholders. About 60 per cent of the shares are owned by City institutions, with the remainder split between management and individual shareholders, who are mostly fans. Mr Edwards, whose father bought the club in the early 1960s, is the largest single shareholder with 14 per cent.

The deal was concluded at the London headquarters of HSBC, United's investment bank.

BSkyB and United last night declined to comment.



## WORLD MARKETS

| STOCK MARKET INDICES | | |
|---|---|---|
| **New York: Lunchtime** | | |
| Dow Jones Ind Av | 7809.16 | (7640.25) |
| NASDAQ Composite | 1626.61 | (+11.21) |
| **Europe and Far East** | | |
| CAC40 | 3503.74 | (+108.39) |
| DAX | 5103.84 | (+160.47) |
| FTSE 100 | 5344.2 | (-2.8) |
| Nikkei | 14913.49 | (+323.43) |
| **US Lunchtime RATES** | | |
| Federal Funds | 5.625% | |
| 3-mth Treas Bills Yld | 4.08% | |
| Long Bond | 102⅛ | |
| Yield | 5.34% | |
| **OTHER RATES** | | |
| UK: 3-mo Interbank | 7⅞% | (7⅞%) |
| UK: 10 yr Gilt | 115.875 | (114.218) |
| France: 10 yr OAT | 106.68 | (106.75) |
| Germany: 10 yr Bund | 107.47 | (107.51) |
| Japan: 10 yr JGB | 112.94 | (112.93) |
| **NORTH SEA OIL (Argus)** | | |
| Brent Dated | $12.47 | (12.503) |

| GOLD | | |
|---|---|---|
| **New York: Comex** | | |
| Sept | $286.1 | (287.0) |
| **London** | | |
| | $285.95 | (288.45) |
| **EXCHANGE RATES** | | |
| **Dollar** | | |
| **New York: Lunchtime** | | |
| £ | 1.6585 | |
| DM | 1.727 | |
| FFr | 5.793 | |
| SFr | 1.41335 | |
| Y | 132.15 | |
| **London** | | |
| £ | 1.6574 | (1.6691) |
| DM | 1.7291 | (1.7265) |
| FFr | 5.7985 | (5.7853) |
| SFr | 1.4163 | (1.410) |
| Y | 132.73 | (131.80) |
| **Tokyo Close** | | Y 132.20 |
| **Sterling** | | |
| DM | 2.8656 | (2.8795) |


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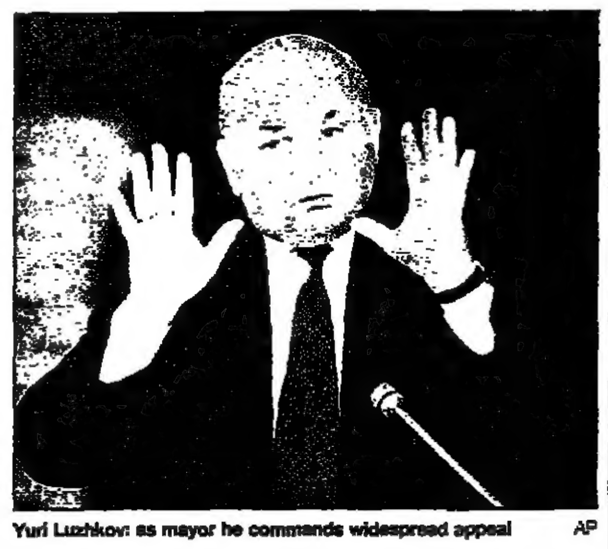
# WORLD NEWS

## EUROPE

# Ringmaster has Russia guessing



Yuri Luzhkov: as mayor he commands widespread appeal AP

By Chrystia Freeland in Moscow

In nearly a decade at the forefront of Russian politics, President Boris Yeltsin has earned a reputation as a brawler, always spoiling to jump into the ring. But this time, as Russia's hard won market reforms unravel and the president's physique grows ever more frail, the Kremlin heavyweight looks like he may be trying to dodge a fight.

After parliament rejected Victor Chernomyrdin, the president's choice for prime minister, for the second time earlier this week, Mr Yeltsin was uncharacteristically quiet. Instead of immediately flinging Mr Chernomyrdin's candidacy back at parliament, daring it to refuse him a third time and risk dissolution, Mr Yeltsin took time out. He retreated to his dacha outside Moscow, and by yesterday evening had not yet proposed a prime minister to rebellious legislators.

Almost universally, Mr Yeltsin's hesitation is beginning to be seen as a sign the president is considering abandoning Mr Chernomyrdin, his controversial first choice. That possibility has opened the field to new prime ministers-in-waiting, and first among them is Yuri Luzhkov, the influential mayor of Moscow.

As the master of Russia's most prosperous city, Mr Luzhkov commands the widespread appeal of a politician who can make things work, however dubious some of his methods may seem to liberal economists. The Moscow city machine, a conglomeration of government and business interests run along the lines of a feudal city state, could also serve as a powerful launch pad to propel the mayor into national politics.

Mindful, perhaps, of Mr Yeltsin's aversion to openly ambitious politicians and especially to potential rivals, Mr Luzhkov took care yesterday to downplay firmly his chances of becoming prime minister. But Mr Luzhkov has already made it to a shortlist of five candidates that the Communists, which dominate the parliament, said yesterday they would support. More quietly, his backers are believed to be canvassing Grigory Yavlinsky, leader of the liberal Yabloko party. Over the weekend, Mr Luzhkov pointed praised Mr Yavlinsky's politics.

Among analysts, Mr Luzhkov is the strong favourite to win Mr Yeltsin's nomination. Surprisingly, even western-oriented liberals, who in the past have criticised Mr Luzhkov's occasional flirtations with racism and his interventionist style of management of the city economy, are coming round to the view that, in these anarchic times, Mr Luzhkov may be the man to lead the Russian cabinet.

"The main issue right now is to rebuild state institutions, and perhaps Yuri Luzhkov is the man for the job," said Sergei Markov, director of the Institute for Political Analysis.

Another surprise contender who has emerged over the past few days is Yevgeny Primakov, the acting foreign minister and a former spymaster.

Like Mr Luzhkov, Mr Primakov has officially denied that he is up for the job. But over the weekend, Mr Primakov's name was publicly put forward by Mr Yavlinsky, who praised him as the ideal prime minister because "he has political authority but he does not have political ambitions". The Communists have also said they would back him.

As a long-serving member of the Soviet and then Russian nomenklatura, Mr Primakov would bring a strong reputation and an influential network of contacts to the job.

A third compromise candidate mooted in Moscow is Yegor Stroyev, the speaker of the Federation Council, the upper house of the parliament, and governor of Oryol, a central Russian region. Mr Stroyev is close to the Communists and would be a popular choice among the governors who make up the Federation Council.

There is also still Mr Chernomyrdin himself. Mr Yeltsin's uncharacteristic hesitation has certainly lengthened the odds on the former prime minister being reinstated in his old job. But the former Gazprom chief is one of Russia's political survivors, having already outlasted dozens of young reformers who imagined they would ease him out of his post.

Then there is the biggest wild card of all – Mr Yeltsin himself. All the backroom lobbying, public analysis and parliamentary speeches are ultimately beside the point. What really counts is the will of the president, and over the past five months Mr Yeltsin has provided ample demonstration of just how mercurial it can be.

# Nations sign 'Silk Road' trade accord

By Carlotta Gall in Baku

Twelve nations of Central Asia, the Caucasus and the Black Sea region signed a multilateral agreement yesterday to recreate the ancient "Silk Road" trade route linking east and west.

In an ambitious project, which has already drawn over $200m of investment to the region, the 12 agreed to develop road, rail, air and sea links from China and Mongolia to Europe. Specifically, the countries agreed to regulate transport tariffs and customs procedures across the region and set up a permanent secretariat to be based in Baku.

The main aim is to develop trade and communications in a region hit by drastic economic decline after the break-up of the Soviet Union.

Equally important, the planned route would provide the newly independent countries with alternative access to the western market from traditional routes through Russia.

Officials from the European Union, which has been sponsoring the plan, described the project as vital for the countries involved to secure their independence from Russian hegemony, though most participants yesterday denied any such intent.

The project remains predominantly an economic one, however, with no stated aims for greater political or security integration. Traffic across the route has grown by some 60 per cent over the past two years, EU officials say.

Delegates from the 33 countries and 12 international organisations that gathered for the one-day summit in Baku repeatedly expressed hopes that greater economic integration would foster stability and peace in a region rife with ethnic conflict.

Organisers pointed to the presence of Armen Darbiniyan, Armenian prime minister, who in attending the summit made the first high-level governmental visit between Azerbaijan and Armenia since the war over Nagorny-Karabakh ended four years ago. Azerbaijan, however, added a reservation to the main agreement that it would oppose transport projects that passed through Armenia.

Dubbed the "New Silk Road Agreement" by Eduard Shevardnadze, Georgian president and one of the co-authors, the document was signed by Armenia, Azerbaijan, Georgia, Bulgaria, Romania, Moldova, Ukraine, Kazakhstan, the Kyrgyz Republic, Tajikistan, Uzbekistan and Turkey.

Russia did send a delegation, as did Iran, though the route effectively bypasses both countries.

# Aer Lingus receives privatisation boost

By John Murray Brown in Dublin

Aer Lingus, the Irish Republic's state-owned airline, received government backing yesterday to look for a strategic link up with a US-based carrier.

The proposal, which was discussed by the Irish cabinet, is the latest move towards privatising Ireland's state sector companies, which still account for 10 per cent of output, and 7 per cent of employment.

The Aer Lingus privatisation will involve the sale of a stake to another company rather than a public flotation. It is also likely to include the offer of shares to the company's employees to secure labour restructuring.

Mary O'Rourke, the minister in charge of state enterprises, said such employee share schemes should become the "benchmark" for all privatisations.

Ireland's chief aim in privatisation is not to raise revenues, as in other countries, but to meet competitive threats and adhere to liberalisation directives from the European Commission.

The Irish are giving employees a place on the executive board in an attempt to bolster workers' rights.

The country has a generally consensual approach to industrial relations. Telecom Eireann or TE, the state telecommunications group, is selling a 14.9 per cent stake to workers in exchange for agreed job cuts and changes in working practices. This is ahead of a planned initial public offering next summer, by which time the Irish market will be fully liberalised in both voice and data telecommunications.

Charlie McCreevy, finance minister, said there would be a similar offering of 14.9 per cent stakes in both Industrial Credit Corporation and the Agricultural Credit Corporation, two small state banks slated for privatisation.

As part of the liberalisation of the power sector, due to be opened to competition in February 2000, the Electricity Supply Board, the state power company, is negotiating an employee share scheme with its workers.

Five per cent of annual profits will be set aside to provide workers with an initial 5 per cent share of the company's equity. Aer Rianta, the state airports authority, which has been instructed to look for an international partner, is likely to follow a similar route.

Alfie Kane, TE's chief executive, said its agreement provided employees with "an emotional and financial lock in". The deal involves giving away 5 per cent of the company, and the formation of a trust, which would borrow to pay for the remaining 10 per cent.

There was some resistance to the plan from TE's partners – KPN, the Dutch telecom company, and Telia of Sweden – which were worried it could put off investors in the flotation.

But Mr Kane believes Irish state companies must continue to reflect the corporate culture in Ireland.

# Transport unions warn of road blockades

By Michael Smith in Brussels

European transport unions warned that members may set up road blockades in future protests, after French truckers yesterday led a series of demonstrations over working hours, causing traffic delays at border routes.

The warning came in spite of a pledge by the European Commission, the EU executive, that it would propose laws to limit professional drivers' hours, if the transport industry and unions were unable to negotiate an agreement on working time by the end of the month.

Yesterday's protests, part of a global day of action on working hours organised by the International Transport Workers' Federation, led to partial road blockades at French borders where lorries were denied access.

Though car drivers were not targeted, there were reports of lengthy tailbacks along France's border with Luxembourg, with cars forced to pass in single file.

Most other delays, including those at Channel ports, were minor, but Portuguese authorities said truck traffic was at a virtual standstill at the Vilar Formoso-Fuentos de Onoro border-crossing in the north-east of the country yesterday morning.

Romolo Vivarelli, general secretary of the FST transport unions' federation, said his organisation had not called for blockades and was not trying to disrupt traffic, but affiliates were likely to consider blockades "if that is the only thing to do to resolve the problem".

The European Commission expressed surprise at the truckers' action. Transport employers and unions had negotiated a draft agreement for a 48-hour week to bring them into line with other European workers, and were due to meet on September 18 to consider endorsing it.

The draft allowed for extensions up to 60 hours, providing the average over a four-month period did not exceed 48 hours, the Commission said. "Many of the demands of the unions will be met if the agreement is ratified.

"If agreement is not reached by September 30, the Commission is prepared to bring forward its own proposals on working time for the road transport sector."

The unions' protests yesterday were seen as a warning to employers about the consequences of failing to reach agreement. However, Mr Vivarelli said even if a deal was agreed, the Commission would need to amend laws relating to hours and that truckers were growing impatient.

# Brussels likely to ban Milan airport plan

By Michael Smith

The European Commission is today expected to declare illegal an Italian plan forcing foreign airlines to transfer flights to an airport outside Milan next month from one near the city centre.

The Commission, the European Union's executive branch, said yesterday that the 20-strong college of commissioners would vote on the plan's legality at their regular weekly meeting today. There were indications that there was unanimous backing for outlawing the plan.

The dispute is casting a shadow over the planned opening on October 25 of the prestigious Malpensa airport, which has already cost L2,000bn ($1.1bn) to build and could eventually be Italy's largest.

A declaration of illegality would help foreign airlines to challenge the plan in court. Italy is determined to avoid a postponement of the opening and is likely to appeal to EU nations to overturn a negative decision.

Nine airlines, including British Airways and Air France, have complained about the proposed arrangements, which would force them to use an airport 48 km from the centre of Milan, and for which a rail link and highway have yet to be built. Linate, the current main airport, is just 7km from Milan's city centre.

The airlines say the proposals would give unfair advantage to Alitalia, which is the only large airline that would still be allowed to operate out of Linate. Italian politicians say Alitalia's rivals are trying to stop it exploiting one of the most lucrative domestic passenger markets is Europe.

The dispute stems from an Italian decision a year ago that only routes with more than 2m passengers a year could remain at Linate. The Commission says this means the airport would be able to service only the busy Alitalia domestic route between Milan and Rome, from which Alitalia passengers can then take the Italian carrier's intercontinental flights. Rival airlines fear potential customers would transfer to Alitalia, rather than suffer the expense and inconvenience of using Malpensa.

Neil Kinnock, EU transport commissioner, has been asking the Italians to allow European airlines to feed some of their hubs out of Linate while road and rail infrastructure arrangements are completed.

Meetings between Commission and Italian officials earlier this week failed to find a way through the impasse.

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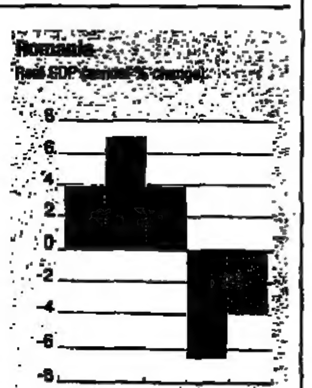
# Romania in precarious position




By Stefan Wagstyl, recently in Bucharest

Even before the Russian crisis, Romania faced difficulties in raising the funds it needs to finance its flagging economy. In the wake of the Moscow-induced turmoil in capital markets, its financial position seems still more precarious.

An emergency budget of spending cuts and tax increases amounting to 8,000bn lei ($900m), approved by the government last weekend, will ease the pressure. But it will not solve the country's greater problems – including an urgent need to secure stable funds from overseas if it is to avoid a currency crisis in the next 12-18 months.

Ion Dragulin, director of the monetary policy department at the National Bank of Romania, the central bank, says the country could not do without support from the International Monetary Fund and World Bank. "This year we managed without exceptional financing. Next year we cannot."

However, both the IMF and the World Bank insist they would set tough conditions for any future loans. The last round of talks with the IMF ended inconclusively earlier this year after Romania proved unwilling to pursue drastic reforms such as rapid privatisation.

Romania's difficulties stem from the fact that it started its post-Communist transition in much worse economic shape than other east European countries. Moreover, until the elections of late 1996, a government composed mostly of former Communists dragged its feet over reform.

The right-of-centre coalition, which took power in late 1996, began with ambitious reform plans. After an initial surge, inflation has been brought under control, falling from 151 per cent last year to a forecast 40 per cent for 1998.

This was achieved mainly through driving up interest rates, which in turn helped to choke economic growth. GDP fell 6.6 per cent last year and is forecast to drop by a further 4 per cent in 1998.

With spending running higher than planned and the economy shrinking, the 1998 budget deficit was heading for 6 per cent of GDP until last weekend's emergency package was agreed. But even now, ministers will struggle to keep below 4 per cent.

The current account deficit has also remained high. The central bank expects it to reach $3bn or 7 per cent of GDP for 1998. Fortunately, with foreign exchange reserves at $2.3bn, there is no immediate danger. But the next few months are critical.

The position might have have been easier had the government pressed on faster with economic restructuring. But initiatives slowed amid arguments in the coalition, which culminated in a change of prime minister. Radu Vasile replaced Victor Ciorbea this spring.

Privatisation plans have gone ahead more slowly than envisaged. In the first seven months of this year, the government raised $700m, leaving it with some way to go to reach its ambitious target of $2.1bn.

Foreign investors, watching the slow pace of change, have been cautious about investing in Romania, including privatisations. That leaves Romania with little choice except going to the IMF and the World Bank.

## NEWS DIGEST

### RUSSIAN OIL GROUP

## Cancel Rosneft sell-off, energy minister urges

The planned sale of Rosneft, Russia's last big state-owned oil group, should be cancelled because of plummeting confidence in the economy, Victor Ott, a Rosneft director, said yesterday.

If the sale were stopped, it would be the second time this year the government has failed to sell Rosneft, but it is more desperate than ever for any sources of hard currency.

The sale of 75 per cent plus one share is planned for the end of October, but Mr Ott, who is also the first deputy minister for energy, said he would call on the government to scrap the sale for at least a year, because of the "unfavourable conditions in the financial market".

"All they are doing is facing reality," said Stephen O'Sullivan, the head of research at the United Financial Group, the Moscow-based broker. "Who in their right mind would put their money in Russia at the present time?"

Earlier this year Royal Dutch/Shell and British Petroleum, Rosneft's most likely buyers, said they would not bid, even though the price had been dropped from $2.1bn to $1.6bn. **Arkady Ostrovsky, Moscow**

### EESTI ENERGIA

## Nordic power link agreed

Eesti Energia, the state-owned Estonian national power company, has reached agreement in principle with a group of Finnish and Swedish electricity producers to link the Baltic states to the Nordic power grid for the first time.

Energia is planning to build a 200MW high-voltage submarine cable between Estonia and Finland, which will allow Estonia to export electricity to the Nordic region and so reduce its dependence on the Russian market.

The project is expected to cost around $100m. A feasibility study should be completed by the end of the year. Construction is expected to begin next spring and to take up to 18 months.

Energia's partners in the project will include Pohjolan Voima, the Finnish power generator, Helsinki Energy, Graningeverkens, the Swedish electricity and forest products group, and ABB, the Swedish-Swiss electrical engineering group.

Gunnar Okk, Eesti Energia chief executive, said the submarine cable across the Gulf of Finland would allow Estonia to double its exports of electricity by connecting the Estonian power system with the unified Nordic system, Nordel.

Last year Energia supplied around 1.2 terawatt hours of electricity to Russia and Latvia. It aims to export a similar amount to the Nordic countries. **Kevin Done, London**

### INTERNET CONFERENCE

## Keep up, Gates warns Europe

Bill Gates, chairman and chief executive of Microsoft, led a host of technology executives and experts yesterday in hailing the rapid development of the internet and electronic commerce in Europe.

Mr Gates, speaking at a conference in London, urged European businesses to use the internet to become more responsive to their customers and to increase efficiency. "Businesses that don't up the pace of decision making will fall behind," he said.

Sanford Robertson, a veteran venture capitalist from Silicon Valley in the US, said the ingredients for Europe to copy the US model were in place, such as quality management, access to capital and a number of stock markets to provide an exit route for early investors.

He was joined by Hermann Hauser, a UK technology investor, who also identified the development of "regional clusters" of technology excellence, such as Cambridge in the UK, as further mirroring the successful US technology industry.

However, Jorma Ollila, chairman and chief executive of Nokia, the Finnish telecommunications equipment group, said Europe's technology sector was still too small and lacked entrepreneurship: "We need a network of small companies in the new digital economy to drive innovation." **Christopher Price, London**

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### INSURERS TO TAKE OVER

## Pay-offs for Spanish workers

The Spanish government will in effect privatise its outstanding obligations to workers who lost their jobs in state-owned steel mills, coal mines and warship yards from the mid-1980s, under a plan launched yesterday.

Commitments amounting in theory to Pta1,267bn ($8.7bn), including early retirement payments to 38,000 former state-sector employees, will be transferred to insurance companies. Fourteen insurers, including bank groups, are being invited to bid for the business, with a maximum of six due to be chosen next month to negotiate a framework agreement.

Sepi, the state industrial company, said it envisaged paying the winning consortium a total premium of just over Pta900bn by the end of the year 2000, with most coming this year from its privatisation revenues. The commitments, lasting well into the next century, stem from successive restructuring plans in northern Spanish coal pits, the now-privatised heavy steel industry, defence and capital goods companies.

Responsibility for Spain's remaining state companies, including the cost of past labour cuts, was passed to Sepi last year. Only the coal pits are now directly funded from the state budget. **David White, Madrid**

### 'UMBRELLA MURDER'

## Bulgaria to see Interpol

Bulgaria plans to ask Interpol to arrest an Italian-born Dane who "remains the most likely perpetrator" of the mysterious 1978 umbrella murder of a defector in London, a federal investigator was quoted as saying yesterday.

A department chief at Bulgaria's National Investigation Office told the daily Demokratsiya that authorities still saw Francesco Guillino as the main suspect in the killing, which occurred 20 years ago on Monday.

British investigators long have suspected Bulgarian agents in the murder of Georgi Markov, which has never been solved.

Markov, known for his criticism of Bulgaria's Communist regime, died after being injected with poison on September 7 1978. A writer and journalist who defected to Britain in 1969, he worked for the Bulgarian-language service of the BBC.

Investigators determined a poison pellet was fired into Markov from a mechanism concealed in an umbrella.

Mr Guillino was charged by Danish authorities in 1993 with collaborating with the Bulgarian secret service in the murder, despite his denial of any ties with the Bulgarians. He was eventually freed while Danish police awaited further evidence from Bulgaria, which never came.

He later moved out of Denmark and press reports say he may have settled in Hungary or Romania. **AP, Sofia**

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**EUROPEAN UNION AIRLINE BOYCOTT** RIVALS AGREE TO CO-OPERATE WITH JAT, AND BELGRADE DECIDES AGAINST RETALIATION IN NAME OF FREE TRADE

# Yugoslav flight ban undermined

Ethnic Albanian refugees return home near Pristina. The EU is divided over a response to the crisis AP

By Guy Dinmore in Belgrade

A European Union ban on flights to EU countries by JAT, the Yugoslav state airline, came into force yesterday, but Belgrade's punishment threatened to turn to farce as it was undermined by foreign airlines and even EU governments.

The ban on JAT, first decided on three months ago, adds to a list of western economic sanctions imposed against Yugoslavia for its heavy-handed crackdown on ethnic Albanian separatists in Serbia's Kosovo province.

EU officials in Brussels said the ban was legally binding on all member states with immediate effect. But Britain dissented, saying it needed to give Belgrade 12 months' notice to cancel an existing air services agreement between them.

European airlines reacted angrily to the ban and seemed to be preparing to cushion JAT from its effects.

European airlines based in Belgrade agreed to co-operate with JAT, possibly by accepting JAT ticket-holders on a revenue-sharing basis. Austrian Airlines said it would consider laying on bigger aircraft.

Western diplomats said any enhanced co-operation with JAT to undermine the EU measure could lead to European governments banning their own airlines from flying to Belgrade.

The EU had expected Belgrade to retaliate against European airlines, but the official newspaper Politika said the Serbian government had decided not to react, in the interests of free trade and equality of states. The cash-strapped Yugoslav government earns substantial revenues from the use of Belgrade airport and overflight rights.

Although JAT will be able to fly to Britain for another year, the UK spokesman said London was "very strongly in favour of this ban as a battery of sanctions" against Yugoslav President Slobodan Milosevic.

Other EU member states have similar treaties but indicated they might terminate them, risking legal action by Belgrade.

Diplomats admitted privately the long delay in implementing the ban and its minimal impact on the Serbian regime had again exposed divisions in the EU and its inability to respond effectively to the growing political and humanitarian crisis in Kosovo.

Belgrade denounced the ban as "an example of destructive political discrimination that indirectly supports terrorists in Kosovo".

● US negotiators have presented both sides in the Kosovo conflict with a draft for an interim agreement incorporating principles of self-government, sources close to the negotiations said yesterday, Reuters reports from Pristina.

The draft was said to include proposals for free elections in the Serb province and for the return of administrative control to Pristina from Belgrade, which has run Kosovo since 1989.

# UK companies' investment in Germany at record

By Tobias Buck in Bonn

A marked pick-up in activity by British companies helped lift total foreign direct investment in Germany to a record DM14.30bn ($7.9bn) in the first half of this year, according to figures published yesterday by the federal economics ministry in Bonn.

UK companies invested DM3.73bn in the German economy in the six months to the end of June, exceeding the highest full-year investment total of DM2.75bn in 1995. In the same period last year, the UK actually withdrew DM1.70bn from Germany, as liquidations exceeded investments.

But in contrast only DM1.06bn of German foreign direct investment in the first half year went to the UK, down from DM2.33bn in the same period a year before. Britain fell from third to eighth place in the table of Germany's most important investment destinations, behind countries such as Spain, Switzerland and Italy.

The strength of sterling is probably behind much of the fall in the UK. However, the Invest in Britain Bureau (IBB) at the Department of Trade and Industry in London remained optimistic about the UK's attraction to German business.

"There are no signs of a decline in investments from Germany," said Tony Matthews of the IBB. He pointed out that in the fiscal year 1997/98, the number of German investment projects rose by 36.6 per cent.

In the period 1990-1997, the UK captured 13.2 per cent of German investments abroad, second only to the US.

The Bonn economics ministry figures showed Germany's total investments abroad in the first half reached DM30.57bn, up from DM21.9bn, with France alone receiving DM10.6bn.

However the pick up in investment into Germany was stronger. The DM14.3bn figure followed a net outflow of DM784m in the first half of 1997. The economics ministry expects the full year total will exceed DM18.2bn, the record set in 1995.

Günther Rexrodt, economics minister, hailed yesterday's figures as proof that Germany was becoming a more attractive investment location.

# Corporate Germany ends flirtation with Schröder and SPD

Disappointed by Kohl before, business will back him again, reports **Graham Bowley**

**German elections**

Like a disappointed suitor quick to forgive, German business is returning to the arms of Helmut Kohl. Despite being let down before, and after some vacillation, corporate Germany feels the chancellor's Christian Democrats are the party most likely to deliver the economic reforms it wants. "They are by no means perfect," says on industrialist, "but we must take what we can get."

With national elections less than a month away, industry wants the new government that emerges from the poll to unleash a revolution in the economy. Most important, companies want the government to tackle Germany's cripplingly high labour costs, which they blame for the country's unemployment crisis.

This is the transformation German industry believes the government must initiate to complete the changes already under way within companies. And reluctantly, they have decided that if anyone is to launch this revolution, it is Mr Kohl.

"*Neuer Aufschwung, Neue Arbeit* [New recovery, new jobs]," is one of Kohl's election slogans, and, through gritted teeth, German business is saying it believes the promise.

In terms of change, industry itself has not been idle. The last three years have been a period of fundamental restructuring. Business has cut costs to become competitive in the face of powerful global pressures. It has slashed jobs, sold unprofitable businesses, and moved production to cheaper locations abroad. In the crisis triggered by the highest unemployment in half a century, it has succeeded in breaking down some of the strict rules that govern Germany's factory floors, forcing unions to accept more flexible working hours and more flexible wage setting.

But these changes have not been enough to satisfy industry. Business leaders now say they cannot go further without government action. Companies are once again profitable, but they are not creating jobs. Wage costs have fallen, but the non-wage labour costs that businesses have to pay – such as social security contributions – remain among the highest in the world.

If the country is to enter what industrialists call a period of "offensive" rather than simply "defensive" restructuring, politicians in Bonn must role back the state and, with it, the costs it imposes on business, companies say. "Germany is too fat, and we are too slow," says an executive in one of Germany's big chemicals companies.

Industry is demanding two main reforms. It wants an overhaul of the old-fashioned tax system, with its high income tax rates and bewildering array of tax breaks and loopholes which make it inefficient and encourage tax avoidance. And it demands a modern, privately funded pensions system to replace the current state scheme, creaking under the weight of Germany's ageing population.

A few years ago, it appeared as if Mr Kohl had started off on the right track. His government made some small changes which eased the burden on business. It relaxed the strict rules which make it difficult for businesses to dismiss workers, although these changes applied only to small companies. It cut the amount of sick pay businesses are obliged to pay workers, and it made some cuts to pensions.

But these changes were minor. To howls of derision, the government stopped short of the more fundamental reforms to pensions and taxes that business was crying out for. Mr Kohl was not entirely to blame: his so-called "reform of the century" was blocked by opposition Social Democrats.

But the government must be blamed for launching plans for reforms too close to the election to have any realistic chance of ensuring co-operation from the SPD. Mr Kohl woke up too late to the perils of globalisation that were engulfing the German workplace. As one industrialist said, "Kohl slept."

Disenchanted by the CDU/CSU, industry warmed to the SPD. In Gerhard Schröder, the SPD's candidate for the election, the Social Democrats appeared at last to have a man who appealed to business. He positioned him-

**'Germany is too fat, and we are too slow'**

self as a moderniser, in the mould of Tony Blair, the UK prime minister, and he counts some of the country's top businessmen as friends.

But industry's flirtation with the SPD has been short-lived. Mr Schröder spoiled the romance when last month he published a manifesto of policies for the first days of office which included reversing even the small reforms Mr Kohl had begun.

Later, the SPD said, it would press ahead with tax and pensions reforms, but it would be done by consensus. Unions, government and companies would sit around the negotiating table to bash out what had to be done.

Business was appalled. Hans-Olaf Henkel, president of the German industry association, called the proposals "a starting shot for a downturn". Mr Schröder appeared to be showing his true colours as a man in thrall to the party's left wing rather than a moderniser.

Which is why industry is now returning faithfully to the chancellor's camp. Mr Kohl has promised to continue where he left off, with wide reforms.

The problem is that he lags behind in opinion polls. Even if the CDU/CSU coalition wins enough votes to form a government, its reforms could again be blocked by the SPD. "Whatever the outcome, the reforms we are likely to get are those outlined by the SPD," says Holger Schmieding, economist at Merrill Lynch.

As opinion polls stand now, the most probable outcome of the election is a grand coalition of the SPD and CDU/CSU. "But the parties are so far apart, this would only mean a bad compromise," warns Volker Kalisch of the chemical industry association. German business is wooing Mr Kohl but it is resigning itself for more years of disappointment.


Stuart Eizenstat Rainer Gut Alfonse D'Amato Israel Singer

# Banks pay a high price for putting the past behind them

**John Authers, William Hall** and **Richard Wolffe** report on how the threat of US sanctions against every Swiss company helped lead to a settlement of $1.25bn claims by victims of the Holocaust

**December 3 1997** Hevesi Conference at Plaza Hotel in New York calls for sanctions unless progress is made by March 31. UBS-SBC merger announced on same day.
**December 14 1997** Eizenstat introduces class action lawyers to Swiss banks' chief executives in Zurich.
**January 1998** Talks begin under Eizenstat in Washington.
**March 24 1998** Acting New York state banking commissioner writes to Federal Reserve urging opposition to UBS-SBC merger.
**March 26 1998** Hevesi Committee meets in New York. Swiss banks sign agreement on structure to settle on a 'rough justice' settlement figure by the end of June. Intense negotiations start under Eizenstat's auspices.
**May 4 1998** Credit Suisse settles with Estelle Sapir, a leading litigant against them, who testified the bank had refused her money without her father's death certificate, after intermediation by Al D'Amato.
**June 4 1998** New York State Banking Department clears UBS-SBC merger.
**June 19 1998** Credit Suisse and UBS offer $600m plus Volcker moneys in final settlement, in a public announcement, angrily rejected by Jewish side. Mel Weiss suggests $1.5bn, to include Volcker, in a settlement also to include Swiss National Bank and Swiss government.
**June 29 1998** Swiss National Bank sued in US over its role in receiving looted gold.
**July 1 1998** Hevesi Committee meets, and calls for sanctions.
**July 2 1998** Hevesi announces phased sanctions from September, leading to total divestment.
**August 10 1998** Both legal teams meet at a Brooklyn steak house.
**August 12 1998** Settlement reached. D'Amato unveils $1.25bn deal outside Brooklyn courthouse.

Melvyn Weiss, one of Wall Street's most feared lawyers, found himself in unfamiliar terrain one Sunday morning last December. He was seated at a long conference table, facing three of Switzerland's top bankers, in the Savoy Hotel in Zurich, a luxurious property owned by Credit Suisse.

Seated next to him were Michael Hausfeld and Robert Swift, two other US lawyers, fellow members of a team that was setting out to make history by extracting from the secretive Swiss banking industry payment for second world war Holocaust victims' assets, locked up in Swiss bank vaults for many decades.

It was, in every sense, a chilly encounter on that winter day last December. It was the start of a process which would end eight months later, at a Brooklyn courthouse with a class action deal to settle the Swiss banks' obligations to Holocaust survivors for ever.

Payment to the Holocaust survivors would only be won at the cost of a severe bruising to Switzerland's international reputation, causing a crisis in the country's self confidence.

A settlement would only come after unprecedented interventions in a private lawsuit by both the US State Department and the chairman of the Senate banking committee; a threat to block the largest-ever merger in the European banking industry; and a threat from the largest public pension funds in the US to divest their shares in all Swiss companies.

Weiss knew that the emotive disputes had dragged on for two years already. Working "pro bono", for no fee, and passionate about the wrongs suffered by his clients, Weiss believed US courts and class action litigation were the only way to get results.

A deal with the Swiss banks would be possible "for the right number", he reckoned. But, as he said before leaving New York for the meeting: "I see no reason to be optimistic. I don't think the Swiss have been conditioned properly."

He was partly right. Before they even spoke, it became clear that the dispute was to be marked by deep personal suspicion and animosity between the people on the opposing sides. It was to be the only time, for technical as much as personal reasons, that the American pursuers and the Swiss bankers actually met in the flesh. The meeting, according to Hausfeld, "was one too many".

The US lawyers' targets were the chief executives of the three big Swiss banks: Union Bank of Switzerland, Credit Suisse and Swiss Bank Corporation. At the head of the table sat Stuart Eizenstat, US undersecretary of state for economic affairs, who was embarking on a painful attempt to mediate in the dispute.

The culture clash was obvious right from the start. Marcel Ospel, chief executive of SBC, chain-smoked throughout the meeting, to the irritation of the US officials who were used to no-smoking policies.

Hausfeld found the banks unhelpful, to say the least. He recalls: "We were told at one point when we were trying to move this process along that we didn't appreciate the fact that we were dealing with the busiest bankers in the world."

Given what was at stake, Hausfeld simply did not understand the Swiss bankers' apparent insouciance. Eizenstat could also see a difficult diplomatic mission ahead. The Swiss side was almost as suspicious of him as they were of the US lawyers.

As a former ambassador to the European Union, he had experience of the matter in hand. Earlier in the year he had published a study of looted Nazi gold, painting a damning portrait of the Swiss as an accomplice in "one of the greatest thefts by a government in history".

The trouble was that, as Eizenstat knew, his report and his American-Jewish background made him seem dangerously partisan to the Swiss. One US official described his profile in Switzerland as "radioactive". Many Swiss identified Eizenstat's views with those of Israel Singer, secretary-general of the World Jewish Congress (WJC), who had started the campaign two years before.

Rabbi Singer, aided by Edgar Bronfman, WJC president, had co-ordinated the campaign against the banks ever since, although he had had no involvement with the lawsuit.

Eizenstat had sought the approval of all sides before entering the dispute.

He found that Swiss banks and the Holocaust survivors' lawyers agreed on one thing: they wanted to put the whole thing behind them. Eizenstat asked if the parties were really interested in negotiating a settlement. They were.

After three hours, the two sides agreed to delay the sensitive talks over financial terms, and start negotiations by discussing the structure of any settlement. They would meet again in Washington, a couple of weeks later, in the new year.

Despite their misgivings, the Swiss felt that there was nothing to be gained by refusing to meet their opponents. Theirs were not the only Swiss interests at stake. More than 400 Swiss companies operate in the US. They were uneasy about the increasingly hostile mood.

UBS and SBC had another, more immediate, concern. A week before that first meeting in Zurich, the two banks had announced plans to merge, creating one of the world's top half dozen banks and the largest in Europe. It would need freedom to operate on Wall Street.

On the day of the merger, US executives of all the Swiss banks had been required to address a conference of 900 state officials at New York's Plaza Hotel. Convened by Alan Hevesi, the New York city comptroller, the conference had ended with a resolution to impose sanctions on the Swiss banks if they could not demonstrate progress towards a settlement by the end of March.

But as the Swiss bankers prepared to fly to Washington in January to meet the US lawyers for the second time, the gulf between the sides was still profound. The banks felt they had already done enough. They had contributed $70m to a humanitarian fund for "needy victims of the Holocaust".

The Swiss government had set up a committee of independent Swiss and international historians to investigate Switzerland's record in the second world war. And the Swiss National Bank, which had handled the bulk of the Nazis' gold, had proposed using SFr7bn ($4.9bn) of its reserves to set up a humanitarian Solidarity Foundation.

Swiss bankers had also set up jointly with the World Jewish Congress a nine-member committee, including Singer, and chaired by Paul Volcker, former chairman of the US, to comb their records. More than 300 outside auditors from three of the world's top accounting firms were conducting the audit of all dormant accounts relating to the Holocaust.

Eizenstat's role, as the talks reconvened in January, was most unusual. The US government would never normally intervene in a private lawsuit. But this case was unique, involving US citizens and jeopardising diplomatic relations with Switzerland.

As planned, the two groups' lawyers met in Eizenstat's Washington conference room to negotiate the basic structure of a deal. At first, the talks made surprisingly swift progress. The banks agreed to pay a sum, subject to negotiation, into a "rough justice" fund to cover all claims against the banks based on their "acts or omissions" in the second world war and transactions with Nazi Germany. This would be in addition to dormant accounts found by the Volcker investigation.

But the banks were worried that this might not end the matter. They wanted to settle only if they could avoid all future lawsuits against themselves. Eizenstat pressed for and won the inclusion of Singer to join the talks. That would enhance the prospect of a final comprehensive settlement.

Singer's participation also made negotiations more awkward. Many of the lawyers disliked the consensual approach which Singer had taken, epitomised by forming the Volcker committee of which he himself was a member. His claim that his client was "the Jewish people" tended to antagonise the other participants who were lawyers with clients.

The negotiators broke up in January conscious that an important deadline was looming. Hevesi, at New York City, and four other members of a "steering committee" on sanctions were due to meet on March 26, to decide whether to call for penalties against the banks. Eizenstat prepared to go to New York to plead with the committee, to give the Swiss more time, because he sensed that he was on the verge of a breakthrough.

But when he arrived, he found himself under unexpected attack. Flanked by the state treasurers of California, New York, Pennsylvania and Vermont, Hevesi made clear he was serious about launching sanctions. In a heated argument, Eizenstat, sitting alone opposite the five-member panel, urged them to back off. But Hevesi and his colleagues were convinced that progress had only come about because of the threat of the sanctions. Another moratorium on sanctions was announced until June 30.

Hevesi was known for taking a tough line on this issue. He had first taken an interest in the Swiss banks in 1995 at the request of Singer, who had a simple reason for involving him: "I didn't want to be shooting blanks."

While Eizenstat was wrestling with the sanctions committee, in the waiting room outside Hevesi's office, the banks' lawyers signed the agreement setting the structure of a future settlement. It would be the foundation of the final deal. But many obstacles remained.

The Swiss side baulked at any suggestion of an "historic breakthrough". They had agreed to seek a global resolution of Holocaust-era issues only if directly related to the banks. The victims' groups, by contrast, also expected the Swiss government and the Swiss National Bank to play a role.

The banks felt so worried that they went back to Hevesi the day after the sanctions committee meeting to insist that they were only negotiating for themselves. "We thought we had a deal. Within a week the Swiss government said they weren't a party to it," said Hevesi. Nevertheless, the talks soon got under way again in April. In an attempt to add the vital missing element – money – to the outline agreement.

This time, the negotiators met in a windowless conference room next to Eizenstat's office in Washington. Weiss, the elder statesman, exuded confidence. The legal team also included Ed Fagan, the New York lawyer who brought the first lawsuit against the banks, and remained the main publicist for the plaintiffs' lawyers.

The banks were represented by two of the most eminent lawyers of the Washington establishment, Roger Witten and Lloyd Cutler. In an attempt to avoid repeating past setbacks, all sides had to sign a legally binding confidentiality agreement.

The banks were under intense pressure even before their lawyers gathered for the Washington talks. The two sides were in adjoining rooms instead of bargaining face-to-face. Each would state its case to Eizenstat, who would then shuttle along the corridor to relay it to the other team. The process was similar to that used for the Dayton peace accords which settled the war in Bosnia.

Instead of trading numbers, Eizenstat wanted to come up with his own assessment of the financial range both sides could justify. After listening to both teams, he proposed a range of between $1.25bn and $1.8bn as a final settlement to be paid over seven years. This figure would include the rough justice compensation and the amount unearthed by the Volcker inquiries.

At first, both the banks and the victims' lawyers rejected the plan. The financial gap was enormous and they both disliked the concept of rolling together different claims. The Swiss proposed paying around $200m as a rough justice number, while the victims' side wanted a total of $1.8bn.

In any case, UBS and SBC were more worried about their merger. The timing of the deal was critical, and its US opponents knew it. An intervention by New York state meant that the plan to create Europe's biggest bank had become a bargaining counter. The New York state banking department, supported by Senator Alfonse D'Amato, was formally opposed to the UBS-SBC merger. This was a bombshell for the Swiss.

In March the department had written to the US Federal Reserve, noting that the Swiss banks' "inattentive regard" for Holocaust victims and their heirs raised regulatory questions about the "character and fitness" of the banks to conduct business in the US.

Without a licence to function on Wall Street, the centre of the world's capital markets, the whole deal would collapse. The delay in the merger was costing the combined bank about SFr300m a month. The Swiss indicated they would raise their offer to the victims to avoid further conflict over the merger. But they added that they would not negotiate until the merger was cleared.

Eizenstat said: "I had been told by the banks that I could relay to the other side that if they allowed the merger to go through there would be an increase in the settlement amount. My thought was that if they blocked the merger the banks would pull out. They had spent hundreds of millions on the merger, and it was critical."

Eizenstat succeeded in convincing the Jewish groups to back down and wait for the higher offer to materialise. On June 2, the World Jewish Congress, acting chiefly on Singer's advice, said it supported the merger. On June 3, New York regulators agreed to let the deal go ahead.

It was at this point that trust broke down on both sides. The banks' next offer was not as much as expected. The Jewish groups and their lawyers complained that they had been "burned".

Tired of what they saw as obstructive tactics, Hausfeld and Weiss gave the banks an ultimatum – either they produced an offer by midday on June 19, or the plaintiffs' lawyers would not be at the next meeting.

This fact leaked into the press, infuriating the Swiss. As a result, on the morning of June 19, as the deadline approached, they announced publicly a "final" offer. They offered $530m in new money for rough justice, plus the total found by Volcker. The plaintiffs' lawyers saw it as a blatant breach of the confidentiality agreement. The offer was greeted with outrage in the US. One Holocaust survivor described it as a "spit in a bucket".

Hevesi responded by calling an impromptu press conference, flanked by Singer and Weiss, where he displayed crudely anti-semitic cartoons culled from recent editions of Swiss newspapers. Weiss suggested that an offer of $1.5bn, to include the obligations of the Swiss National Bank, and to include whatever Volcker found, would suffice – a move which some Jewish negotiators now consider a mistake, as it moved their "floor" down from $1.8bn.

There was no sign of a resolution. But the cast moved on to another meeting in New York City Hall, on July 1. As before, each of the state treasurers sat on one side of the table, in Hevesi's impressive conference room, and heard evidence from a series of interested parties, starting with Edgar Bronfman.

Nobody doubted the outcome. That afternoon, Hevesi announced to a meeting room full of journalists that the committee was unanimously recommending to its network around the country that sanctions be imposed.

The following day, Hevesi offered the banks a glimmer of hope. The sanctions would not start until the beginning of September, and even then they would only involve minor exclusions from low-margin business. But there would be three further stages, culminating in July 1999 with total divestment by state pension funds of shares in all Swiss companies. The target was now plainly the Swiss nation, not merely its banks.

Eizenstat was horrified. While he angrily denounced the threat of sanctions, Weiss was back in contact with the judge. He wanted to resume litigation, and he wanted the powers of discovery which would give the lawyers and their investigators the right to look through the banks' books.

The talks brokered by the US government collapsed in mistrust and mutual recrimination. In trying to win the trust of the Swiss, Eizenstat had lost the trust of the Jewish groups he was once associated with. Bennett Freeman, Eizenstat's senior adviser, said: "It was an excruciating challenge for him. This is a man who cares in his bones about justice for survivors, but at the same time he had disciplined himself to balance the personal commitment with a rigorous sense of the US government's interests. I don't think the plaintiffs' lawyers always appreciated what an extremely difficult balancing act that was."

But the process continued. Edward Korman, US federal district judge for Brooklyn, was invited to step forward as the man who could finally broker a settlement. On Monday, August 10, on the eve of closed court negotiations, he invited both negotiating teams to dinner at the Gage & Tollner steak house, an old-fashioned wood-panelled establishment, complete with gas lights, behind Brooklyn's supreme court. Seated at the end of the table, Korman was surrounded by 22 men, mostly lawyers. Only two bottles of wine were drunk. "We wanted to keep our brain clear," said one participant.

Unfortunately for many of the participants, Gage & Tollner is not kosher. Rabbi Singer spent the evening sipping Coca-Cola and eating fruit. The judge started with a declaration that he did not expect his court to be used to force a settlement. He wanted an out-of-court deal. The rest of the evening was given over to a mock presentation of the evidence.

Hausfeld took the lead, working through the total that the banks might be expected to pay if the case did come to court. He did not give a total, although others present say that all claims he covered came to $16.8bn.

Korman said little. He just allowed both sides to sit and calculate what might happen if they did not achieve a settlement. For the Swiss banks, there was the unpleasant thought of the punitive damages a jury of lay people might award after hearing evidence from a group of frail octogenarian Holocaust survivors.

Even more important was the lawyers' threat to trawl through the banks' records, which would endanger Swiss bank secrecy laws. For the plaintiffs, there was the problem that much of their evidence, while broad enough to paint a convincing picture to the public, might be harder to justify in a federal court.

The judge ended the evening by suggesting that the banks could either pay $1.5bn to cover all liabilities, or $1bn plus a sliding scale of payments to cover whatever Volcker found. Both sides suddenly seemed confident that they would have a settlement before the week was out. The next morning the Swiss negotiators held an extended conference call with Rainer Gut, Credit Suisse's chairman, who was at his Long Island holiday home, Mathis Cabiallavetta, UBS chairman and Ospel of UBS.

The negotiators got the clearance to do a deal, helped by a vital concession. The plaintiffs' lawyers agreed that the amount Credit Suisse and UBS paid would cover the Swiss National Bank's obligations. All claims against the Swiss government and Swiss industrial companies would also be waived in return for a lump sum settlement of $1.25bn, which would include all the money found by the Volcker Commission.

This was wonderful news for the banks. They could increase their offer for "the sake of Switzerland", not just their own interests. It would make it much easier to sell to the Swiss public. As one lawyer put it: "We have bought peace for the nation."

Weiss, looking back at it now, has no regrets. "When we put on the table that we would release the Swiss National Bank, we did it as deliberate move to defuse any feeling on the other side that this was just going to be a repeated attack and they they could not buy peace ever."

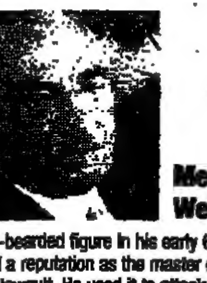
But as Wednesday dawned, after a full day of negotiations, the details of the deal had still not been formally agreed. The two sides were bickering when Senator D'Amato, who had done more than anyone to turn up the heat on the Swiss banks, made a surprise appearance in court.

He had his own reasons for wanting a quick settlement. His campaign against the Swiss banks had earned him political credit from New York's influential Jewish community and he was facing a re-election bid in November. Intervention by a US senator in pending litigation was almost unheard of. But it was important for D'Amato to bow out with a victory rather than prolong a row about Swiss sanctions between the federal and New York governments.

Ironically, his intervention appears to have been welcomed by the lawyers on the Swiss side, who felt that he helped win round those who had been holding out for a still higher offer. The survivors' lawyers were less warm. "He's certainly very good at showing up and taking the credit," said one.

So it was D'Amato who announced the deal to the world on the courthouse steps, as he wished. And it was D'Amato, of all people, who finally brought the news to the embattled Swiss that "you've got a deal".

## The Holocaust survivors' legal dream team... and their opposition


**Melvyn Weiss**
A grey-bearded figure in his early 60s, he earned a reputation as the master of the class action lawsuit. He used it to attack numerous securities frauds, growing very rich in the process. He inflicted landmark legal defeats on Michael Milken's Drexel Burnham Lambert, and on Prudential Insurance of America.


**Robert Swift**
A Philadelphia lawyer, he spent most of a decade suing Ferdinand Marcos in the first ever use of a class action in a human rights case.


**Edward Fagan**
The New York personal injury lawyer brought the first class action against the Swiss banks in 1996. He was to prove adroit at maximising press publicity about the Swiss banks' actions.


**One of the banks' main lawyers: Lloyd Cutler**
The 80-year-old attorney has served as White House legal counsel in both the Carter and Clinton administrations. Cutler helped persuade the Swiss side that the time was ripe for neutral countries to make amends for omissions during the second world war.

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# Clinton acts to stem party rifts

By Richard Wolffe in Washington

President Bill Clinton meets Democratic leaders today after a week of unprecedented criticism from his party allies over the Monica Lewinsky sex scandal.

The hastily arranged meeting with House Democrats is being seen as an attempt to shore up support in the final weeks before Congress receives the official report into allegations of sexual misconduct at the White House.

Republican leaders said yesterday they expected Congress to receive the long-awaited report of Kenneth Starr, the independent counsel, this week or next. Trent Lott, the Senate's majority leader, said both he and Newt Gingrich, the House speaker, believed the report would arrive within two weeks.

Mr Gingrich is scheduled to meet leading Democrats in the House of Representatives today to discuss the procedures for dealing with Mr Starr's findings.

White House lawyers have meanwhile written to Mr Starr demanding to see a draft of his report a week before it is delivered to Congress, to allow the president to submit a written reply to Judge Norma Johnson, who has overseen the probe.

David Kendall, the president's private lawyer, wrote: "Elemental fairness dictates that we be allowed to respond to any report you send to the House simultaneously with its transmission."

Mr Kendall also attempted to pre-empt any critical analysis of the president's behaviour in the report by questioning Mr Starr's legal right to do anything more than present the evidence he has discovered.

A bipartisan poll published yesterday suggested the White House scandal is discouraging Democratic voters from voting in mid-term congressional elections in November.

The survey of 1,000 voters found 35 per cent identified themselves as Republicans and 34 per cent Democrats.

However, when asked if they were "extremely likely to vote", the Republicans took a clear lead with 38 per cent compared with the Democrats' 32 per cent.

Celinda Lake, a Democratic pollster behind the survey, said: "The scandals have drowned out the discussion of the issues – healthcare, education and social security – that help the Democrats. They have also added to the volatility of senior voters who will be critical in low turnout elections."

The Battleground 1998 survey, conducted by both Republican and Democratic pollsters, revealed that voters placed moral and religious issues as the leading problem facing the US – alongside drugs and crime.

The White House has made a concerted attempt to turn the political agenda towards education, with school visits yesterday by Mr Clinton, Hillary Clinton and Vice-President Al Gore.

Mr Clinton was expected to announce record enrolment figures at elementary and secondary schools. He was also planning to urge Congress to pass his proposals for higher spending on schools and teachers.

An ebullient Kenneth Starr likely to deliver report in two weeks AP

# Alliance attacks census methods

By Adrian Michaels in Washington

Current US census methods dramatically understate the population of the US, causing a misallocation of federal funds which usually affects the most needy social groups, a survey released yesterday shows.

The Census Bureau, charged with carrying out the next study in 2000, estimates the last census in 1990 missed 8.4m people and double-counted 4.4m others.

Americans for a Fair and Accurate Census, an alliance of elected officials, civil and children's rights advocates, religious leaders and scientists, said yesterday that the fact that certain groups – such as children, the poor, ethnic minorities, city dwellers and people who lived in rural rented homes – were missed more often than others "made the undercount even more inaccurate and unfair".

In California, the group said the Census Bureau had estimated the net undercount to be almost 850,000, including 7.6 per cent of the black population, 4.9 per cent of Hispanics and 3.3 per cent of Asians. Even if the undercount in 2000 were no worse than in 1990, the number of children missed could lead to serious errors in planning services.

More than 52,000 children were not counted in Los Angeles alone, "about the same number that would be affected if we opened school this September short of 77 schools and 2,177 teachers," the group said.

The report comes two weeks after a federal court ruled the Census Act prohibited the use of statistical sampling techniques to estimate the population.

The White House says sampling would allow a more accurate measure of groups traditionally seen as undercounted, but Republicans say the move is unconstitutional.

# Car group chief eyes standards

By Haig Simonian, Motor Industry Correspondent

Jürgen Schrempp, chairman of Germany's Daimler-Benz group, plans to launch an international campaign to harmonise environmental and safety standards to accelerate new product development. In a speech for a reception in Chicago to mark the expansion of the Financial Times in the US, Mr Schrempp said: "Let us make product harmonisation a top priority so that instead of struggling with different standards we can concentrate our resources on breakthroughs that would make products cheaper and better for the benefit of our customers – and not just different to suit the bureaucrats."

The FT started printing in Chicago earlier this year.

**TASK FORCE TALKS** UNILATERAL ACTIONS RARELY ACHIEVE GOALS SAYS EIZENSTAT

# Diplomacy not sanctions, US told

By Nancy Dunne in Washington

Diplomatic engagement should take precedence over economic sanctions when the US seeks to defend its interests or project its influence abroad, the Clinton administration said yesterday.

Stuart Eizenstat, under-secretary of state, yesterday argued before a Senate task force investigating the effectiveness of economic sanctions that unilateral actions rarely achieved their goals.

The better alternative was diplomacy, which could range from the symbolic, such as withdrawing an ambassador, to denying visas to specific individuals, to the more formal, such as entering into concerted action with like-minded countries. "We must keep in mind that the power of positive inducement is often more productive in achieving our goals," he said.

"Actions, such as rewarding desired behavior, providing aid and assistance, for example, in human rights training, in establishing modern legal systems, or other measures designed to help countries in transition to democracy, can be effective instruments in achieving objectives."

The bipartisan Senate task force, appointed by the majority leader, contains some of the most ardent backers of sanctions in Congress, as well as senators pushing for sanctions reform. It will be a remarkable, and unexpected, achievement if the group can agree recommendations to curb or focus US sanctions.

The US has imposed unilateral economic sanctions 92 times since the end of the second world war. Two-thirds of these have been levied since 1993. In 59 out of 62 cases, the sanctions have been imposed at the demand of Congress.

The administration hopes the task force will agree to give the president more flexibility in using sanctions through a broader waiver authority. In the case of sanctions imposed on India and Pakistan when they began nuclear testing in May, the sanctions were automatic.

"The lack of flexible waiver authority has limited our ability to be creative in encouraging India and Pakistan to co-operate in avoiding an arms race on the sub-continent," Mr Eizenstat said.

"Our purpose is not to punish for punishment's sake, but to influence the behaviour of both governments. We do not wish for unnecessary harm to fall on the civilian populations of either country, particularly the poor and less fortunate, or on American business."

Mr Eizenstat warned that sanctions ought not be imposed unless a clear case could be made that they would be successful.

He hoped the task force report would lay the grounding for sanctions reform legislation in next year's congress. He urged Congress not to try to override the president's veto of the Iran Missiles Sanctions Act, aimed specifically at Chinese and Russian companies suspected of helping Iran develop its missiles.

He also urged that it not pass a bill punishing countries which persecute religious minorities without giving the president a strong waiver authority.

When sanctions work, Page 14

## NEWS DIGEST

**MARKET TURMOIL**

### Brazil unveils spending cuts to bolster confidence

The Brazilian government has announced spending cuts of about R$4bn (US$3.4bn) this year and promised reductions in the fiscal deficit between 1999 and 2001, in an effort to bolster confidence in the country's ability to withstand the crisis on world financial markets.

The measures follow last week's increase in the central bank's primary lending rate from 19 per cent to 29.75 per cent, a move designed to stem a dollar outflow which cut foreign reserves from $69bn to $59bn over the past fortnight.

Economists said the spending cuts would do little more than cover the higher cost of servicing public debt caused by the rise in interest rates.

Pedro Malan, finance minister, yesterday ruled out the possibility of a moratorium on debt repayments or of controls on foreign exchange markets. But he said Brazil would take whatever measures necessary to protect the stability of its economy. **Jonathan Wheatley, São Paulo**

**VENEZUELA**

### Caracas reassures on debt

The Venezuelan government is planning a series of 40 belt-tightening measures to meet its $3bn budget shortfall this year, but will be able to service its $1.5bn foreign debt payments due at the year-end, Teodoro Petkoff, planning minister, said. The low average oil price this year, $11.50 per barrel, necessitated $512m spending cuts throughout the central government and state companies, and an extra $600m in the state-owned oil company Petroleos de Venezuela (PdV), Mr Petkoff added.

Venezuela, which depends on oil for about 40 per cent of its income, had based its 1998 budget on a price of $15 per barrel. For every $1 drop in the oil price, the country loses about $1bn in revenue. As well as the cuts, the government is asking PdV for an "extraordinary dividend" of $440m over its normal fiscal contribution to the state treasury. **Christina Hoag, Caracas**

**TRAVELERS GROUP**

### Fed urged to reduce rates

The US Federal Reserve should cut interest rates to stave off the risk of a broader global financial crisis, Sandy Weill, chairman of Travelers Group, said yesterday. "This might not be an inappropriate time for the US to consider a rate cut," Mr Weill said, pointing out that the move would "ease the pressure" on ailing Asian currencies.

The call for a rate cut is one of the first from a leading US banker. Travelers, which incorporates Salomon Smith Barney and is now seeking to merge with Citicorp, is one of the world's largest financial groups. **Gillian Tett, Tokyo**

**On the web** today
- Cuban changes blow back den of decadence
- Ontario teachers start school year with strike
- Short-term market day traders face testing times

http://www.ft.com/americas

WORLD TRADE

**FARNBOROUGH AIR SHOW** SALES OUTLOOK STRONG DESPITE ECONOMIC CRISES IN ASIA AND RUSSIA

# World's aircraft makers report soaring order books

**By Michael Skapinker, Aerospace Correspondent**

Airbus Industrie, Boeing of the US, Rolls-Royce of the UK, General Electric of the US and Embraer of Brazil yesterday shrugged off the economic crisis in Asia and Russia and announced large orders at the Farnborough air show.

The manufacturers, who boast of bulging order books, say few Asian carriers are withdrawing from aircraft deals. The manufacturers say they are having no difficulty finding alternative customers for aircraft cancelled or delayed.

Airbus, the European consortium, unveiled orders for its new generation of A340 aircraft from Emirates, the Dubai-based carrier, and the International Lease Finance Corporation of the US.

Emirates said it had placed firm orders for six long-range A340-500 aircraft, with options on a further 10. The airline said it would use the aircraft to fly non-stop to North America and Australia. "Only the A340-500 has the performance to fly non-stop to the US east and west coasts, whatever, the temperature in Dubai," said Sheikh Ahmed bin Saeed Al Maktoum, Emirates' chairman.

ILFC placed firm orders for 10 A340-500 and A340-600 aircraft and six narrow-body A320s. The A340-600 is an enlarged version of the A340, capable of carrying 380 passengers. Airbus launched the aircraft to compete with the Boeing 777 and smaller versions of the 747.

Airbus said it now had orders and commitments for 120 A340-500 and A340-600 aircraft from nine customers. All the aircraft use Rolls-Royce Trent engines.

Boeing said Varig of Brazil had placed firm orders for 24 aircraft and taken options on a further 15. The aircraft, to be powered by GE engines, are a mix of 777s, 737s and 767s.

Embraer said it had received an order for 75 of its ERJ-135 jets from American Eagle, the American Airlines regional subsidiary. American Eagle has taken options on a further 75. The aircraft are also powered by Rolls-Royce engines.

Manufacturers at Farnborough say the Asian crisis is having little effect on their business: Although there have been some cancellations and requests for delivery postponements from Asian carriers, manufacturers are having little difficulty placing the aircraft with other airlines.

Noël Forgeard, Airbus managing director, said earlier this week that the European consortium had received no cancellations of wide-bodied aircraft orders and 12 cancellations of narrow-bodied jets. It had also received requests for the postponement of 15 deliveries, but he said Airbus had quickly found airlines which wanted both the cancelled and delayed aircraft.

Stonecipher: Worry about effect of Asia crisis on world economy

Harry Stonecipher, Boeing's president, said his group had also so far seen little effect from the Asian crisis. But he warned: "The Asian crisis will continue for the next two to five years. Our biggest concern about the Asian crisis and the Russian situation is how it will affect the world economy."

Rolls-Royce said it had received no cancellations of engine orders. It had received some requests for delays but had placed these engines elsewhere.

Private finance for tanker aircraft, See UK News

# Businesses take long-term view on the internet

**By Paul Taylor in Paris**

Pronounced differences in corporate attitudes towards electronic commerce between the US and Europe have emerged from a study published yesterday by International Business Machines and the Economist Intelligence Unit.

The study, based on the comments of senior executives and internet strategists in 25 European multinationals, suggests that while European companies believe over the longer term business-to-consumer electronic commerce offers the richest revenue potential, in the shorter term the electronic business-to-business market will provide the best investment returns.

"This is the key difference between Europe and the US where the business-to-consumer model is leading the way," said Khalil Barsoum, general manager of IBM Global Industries in Europe, who was attending International Data Corporation's conference in Paris on the impact of the internet on the global economy.

Eighteen out of the 25 companies said that in the short to medium term – the next five to 10 years – the business-to-business market had the greatest potential. The variety of languages and cultures within the European market is seen as posing difficulties in the business-to-consumer market, a factor which is not present in the US.

All companies agreed, however, that over the longer term, the business-to-consumer market offered the richest rewards but would require extensive investment in time and money due to the complexity and fragmentation of the European market.

Among the factors cited as holding back the development of business-to-consumer electronic commerce in Europe, companies identified high telecommunications costs, a lack of interest on the part of governments and authorities, a lack of technology standards and interfaces, weak support for e-business strategies at board level, the variety of languages and cultural differences across Europe and the spectre of stricter EU regulation and taxation of the internet.

Despite these factors, the study suggests that the gap between US and European electronic commerce strategies is shrinking as European companies move up the learning curve, and notes that in some industries, particularly the airlines and banks, European companies may be ahead of their transatlantic counterparts.

**REGIONAL JETS** CANADIAN COMPANY ANNOUNCES $1bn PROJECT

# Bombardier plans new 90-seat aircraft

**By Michael Skapinker, Aerospace Correspondent**

*Competition in the regional* jet market intensified yesterday when Bombardier of Canada said it planned to build a new 90-seat aircraft.

Bombardier's announcement at the Farnborough air show came a day after Airbus Industrie, the European consortium, said it intended to produce a new 100-seater, the A318. Airbus says the *aircraft, which will be a* smaller version of its A319, will cost less than $500m to develop.

Boeing of the US already has a 100-seater, the 717, which recently carried out its first flight. However, Boeing has so far won orders from only two airlines: AirTran of the US which has placed 50 firm orders and *taken 50 options* and Bavaria Leasing of Germany which has ordered five 717s.

Bombardier said its new aircraft, which will cost $1bn to develop, would not compete directly with the A318 or the Boeing 717 because it would be smaller and lighter.

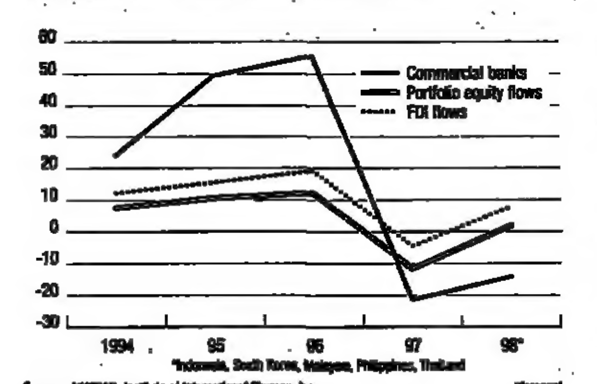
Laurent Beaudoin, Bom*bardier's chairman*, said his company would spend a year studying the market and talking to airlines and potential manufacturing partners before taking a final decision on whether to proceed with the aircraft, which will be called the BRJ-X series.

Bombardier, which is the world's third biggest civil aerospace company after Boeing and Airbus, already produces a 50-seat regional jet and this year started manufacturing a 70-seater. The company said it expected airlines to buy 2,500 aircraft with between 80 and 110 seats over the next 20 years.

However, Noël Forgeard, Airbus managing director, warned Bombardier it would find the market for new regional jets tough. "To put a new 100-seater into the market is a very difficult venture. It needs as much design work as a large new aircraft and, of course, the revenues are smaller," Mr Forgeard said.

**Net capital flows**

*to the five Asian* countries most affected by the financial crisis*




*Indonesia, South Korea, Malaysia, Philippines, Thailand

Sources: UNCTAD, Institute of International Finance, Inc    *forecast

# Unctad sees sunny side of the Asia crisis

**By Frances Williams in Geneva**

The United Nations Conference on Trade and Development yesterday expressed cautious optimism over the longer-term prospects for foreign direct investment in Asia, despite the impact of the region's economic crisis.

Although inflows of foreign direct investment (FDI) are running at lower levels than last year, Unctad cites a number of positive factors for foreign investors resulting from the crisis.

These include the lower dollar costs of investment due to falling asset prices and currency devaluations, improved cost competitiveness of production in affected countries and policy changes by governments to encourage inward FDI. Export-oriented companies in the US, western Europe and less affected countries in the Asian region are already taking advantage of these conditions, notably in Thailand and South Korea, Unctad says.

The Geneva-based UN body estimates that FDI into the five most affected Asian economies – Indonesia, Malaysia, the Philippines, Thailand and Korea – was almost unchanged last year from 1996, though the first quarter of 1998 shows a tailing off, most marked in Indonesia. By contrast, both foreign portfolio investment and foreign bank lending turned negative last year, and have shown little sign of revival.

Unctad also notes that foreign companies geared to the domestic market will be put off investing by reduced demand and slower economic growth in the affected countries. For instance, a number of motor manufacturers have scaled down, postponed or cancelled projects.

On balance, "despite their overall resilience during 1997, FDI flows to the five most affected countries as a group and to the region as a whole are likely to fall somewhat in 1998", Unctad says. But in the longer term "there is room for cautious optimism".

A survey conducted by Unctad and the International Chamber of Commerce earlier this year showed that multinational companies still rate the region highly as a long-term investment destination. If this view is maintained, Unctad believes FDI flows to Asia could resume their upward trend after this year, while longer term prospects could even be improved by measures taken by countries in the region to strengthen their economies.

This also holds for China, by far the largest Asian destination for FDI which reached $45bn last year. In Beijing yesterday Rubens Ricupero, Unctad secretary general, said China would remain an attractive location for FDI.

INTERNATIONAL

# Plans for global bank regulation attacked

**By George Graham, Banking Editor**

International banks and insurers yesterday attacked proposals for regulating financial conglomerates.

The Institute of International Finance, a Washington-based group representing commercial and investment banks, fund managers and insurance companies, said it strongly objected to proposals published by supervisors earlier this year for calculating how much capital conglomerates should hold as a cushion against risks.

The proposals were published earlier this year by the Joint Forum, which groups the Basle committee of banking supervisors with international securities and insurance regulators. They represent a first attempt at harmonising the approaches of these regulators, who often use completely different supervisory techniques.

The IIF said it welcomed the joint forum's effort to establish more consistency in the supervision of the 50 or so financial groups which are active on a global scale.

"We believe that it is imperative that whether these groups are registered as securities firms, banks, insurance companies or some other type of institution, they should be supervised on a consistent basis that recognises their risk profile," said Charles Dallara, the IIF's managing director. The IIF particularly welcomed the Joint Forum's plan to establish a co-ordinator among the various national and industry regulators with which conglomerates have to deal.

However, it said the capital adequacy proposals, which aim to bring together the different capital requirements imposed on a conglomerate's separate businesses into a single group-wide capital requirement, "do not adequately address the actual risks contained in financial groups' portfolios".

"We believe that capital is critical, that firms do definitely need a capital cushion, but that cushion should be related to the nature and volume of the risks they run," Mr Dallara said.

Other bankers and regulation experts, however, were less critical of the Joint Forum's efforts, which have been bedevilled by differences between supervisors in different countries.

While banking supervisors have worked together for years in the Basle committee, and have achieved a great deal of consistency, co-operation among insurance supervisors is more recent.

Securities supervisors, particularly in the US, have also been reluctant to embrace the concept of consolidated group supervision, which banking supervisors regard as crucial.

# Zimbabwe's land of hope and unmet promises

## President Mugabe has little chance of meeting black farmers' expectations of land redistribution, reports **Tony Hawkins**

Eighteen years after independence, Zimbabwe is facing a crisis of unfulfilled expectations.

No issue is so critical to the country's political stability and economic prospects as President Robert Mugabe's pledge to redistribute white-owned farmland to impatient black farmers. But all parties attending today's donor conference in Harare on land resettlement seem anxious to lower those expectations.

The Zimbabwe government's earlier hopes of raising Z$42bn (US$1.75bn) at the three-day meeting are being played down, with ministers now saying that this week's conference is no more than the beginning of a lengthy process.

The case for resettlement is unanswerable and accordingly there is considerable donor sympathy for it. At present Zimbabwe has more than 1m households – 5.6m people – crowded into 1.6m hectares in the communal lands, while 5,000 large-scale commercial farms covering 10m hectares support only 1.3m people, mainly farm workers and their families.

Partly as a result of this skewed pattern of land ownership, Zimbabwe has one of the most inequitable patterns of income and wealth distribution in the world – ranked in a recent World Bank study as number five, out of 108 countries, in terms of income inequality – after South Africa, Gabon, Sierra Leone and Brazil. The government's 1996 poverty assessment study found that 46 per cent of households have incomes below the food poverty line and that the incidence of poverty is greatest in the communal lands, where two-thirds of families live in poverty.

But progress has been slow. Soon after independence in 1980, President Robert Mugabe's government set out a land programme to resettle 162,500 families over three years.

Thirteen years after that programme should have been completed, fewer than 56,000 families had been resettled, and while approximately 3m hectares of land have been purchased since the early 1980s for resettlement, some settlement schemes have collapsed as a result of a lack of back-up support – training, infrastructure, marketing and finance facilities. Farmers claim too that 180 farms either already purchased, or offered to the government, lie idle awaiting resettlement.

A farmer herds cattle on land once owned by whites. Donors are unlikely to satisfy blacks impatient with the pace of resettlement

While finance has been a bottleneck, so too has the administrative capacity to resettle people with the appropriate back-up. Resettlement experts believe that the cost of purchasing land – owned mainly by white commercial farmers – is only about a third of the total amount needed.

With the national budget under intense pressure, Zimbabwe is looking to the donor community to provide the lion's share: (about 61 per cent, or more than US$1bn) to fund the programme, which involves taking over 5m hectares owned by white farmers and resettling upwards of 100,000 families over five years.

Government is to contribute more than a third (US$600m) while the balance of US$60m is supposed to be collected from the beneficiaries, though critics have been quick to point out that few resettled families will be able to afford the Z$15,000 (US$600) per plot.

Late last year 1,471 commercial farms – some owned by blacks – were listed for compulsory acquisition, sparking an outcry that the criteria previously set out for such acquisitions had been disregarded and that the economic consequences would be dire.

The Commercial Farmers Union (CFU) estimated that large-scale commercial farm output would fall by a third, exports by 40 per cent, and employment by 88,000 (25 per cent). The government has since back-pedalled, delisting 600 of the farms, (200 of them subsequently relisted according to the CFU), promising that appropriate compensation would be paid and that the process would be transparent and orderly.

At the same time, ministers insist that there can be no going back on the principle of land acquisition.

But the government's five-year programme looks hugely optimistic, especially since some experts believe that the capacity currently exists to settle no more than a dozen farms a year.

Recently there have been incidents all over the country of "squatters" moving on to farms to stake their claims for land. Ministers have responded with a mix of promises to resettle families before the rains in November on one hand, and threats to evict them on the other.

Neither is realistic. Using the police and army to force peasants off the land they have taken over would wreck the ruling ZANU-PF party's hopes of retaining its political monopoly at the parliamentary and presidential elections scheduled for 2000 and 2001.

Donor support at this week's conference is dependent on the government delivering an orderly, transparent resettlement programme, which would on the most optimistic estimates stretch over eight to 10 years. So while land resettlement is a hugely popular policy, certain to win votes at the elections, it is one that could easily backfire should, as seems very likely, the government finds at the end of this week that the donors have come only with notebooks – not chequebooks.

NEWS DIGEST

**INTERNET BANKING**

## 'Gold rush mentality' as banks invest in haste

The world's largest retail banks are rushing to invest large amounts in developing electronic banking without any clear idea of what they hope to achieve, according to a survey by Ernst & Young, the management consultants.

Only 4 per cent of the banks in the survey expect to increase sales through the internet.

Banks do not expect sharp cost cuts, either. On average, they expect only a 1 per cent a year fall in the share of banking carried out in branches, at cash machines and point of sale and over the telephone because of the net.

And the internet is not improving service. Most banks admitted they failed to deal with electronic inquiries promptly, with 54 per cent only starting to process online messages 24 hours after they are received.

The report, based on interviews with more than 100 banks in 26 countries, warned that banks were ploughing cash into internet systems because of a "gold-rush mentality" created by media hype and computer salesmen. They also see a threat from non-financial companies such as Microsoft, Disney and Yahoo and small entrepreneurs.

Jonathan Charley, banking partner at Ernst & Young, said: "Clearly many banks regard the internet as simply another technology. They have no idea how to make *money from it. Most have no idea which customers*, if any, want to use it, but many of the banks surveyed seem compelled to invest now without a definable strategy."

More than half US banks believed the internet would help them keep customers, although only 34 per cent of European banks cited that as a reason for investment.

However, Mr Charley said the development of online banking made it easier for customers to switch as comparisons between banks is made simpler. "Ironically, as firms try to catch up with small, high-tech competitors, they may inadvertently be accelerating the issue of dwindling customer retention." **James Mackintosh, London**

**CENTRAL AFRICA**

## Congo peace summit collapses after rebels walk out

A regional summit convened to end the Democratic Republic of Congo's month-long war ended in disarray yesterday, with the rebels leaving in disgust at President Laurent Kabila's refusal to meet them face-to-face.

Despite shuttle diplomacy by Frederick Chiluba, the Zambian president, between rooms in the Victoria Falls Elephant Hills Hotel, Arthur Z'Ahidi Ngoma, heading the rebel delegation, said there would be "no ceasefire before Kabila negotiates with us directly".

The seven heads of state at the meeting nevertheless said their defence ministers would work out the details of a ceasefire tomorrow at the Organisation of African Unity (OAU) headquarters in Ethiopia, including the withdrawal of foreign troops and democratic reform in Congo. Salim Ahmed Salim, OAU secretary-general, said Mr Kabila had promised to "broaden the political space" in his country.

Nelson Mandela, South Africa's president, said in Cape Town he would press ahead with plans for a diplomatic solution by the 14-nation Southern African Development Community at a summit on Sunday. **Mark Turner, Nairobi**

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Businesses take long-term view on the internet

the Asia crisis

'Gold rush mentality' as banks invest in haste

Congo peace summit after rebels walk out

**CHINESE ECONOMY** PRICE OF SOME ITEMS STABILISING AFTER SLIDE

# Beijing claims smuggling victory

By James Kynge in Beijing

Beijing claims to have won its fight against smuggling – a victory that could weaken the deflationary forces that have gripped China since October and held back economic growth.

The crackdown on smuggling, started two months ago, is now bringing relief to businesses besieged by competition from illegal imports. The prices of some key products are stabilising after sliding for several months.

The price of rice has already begun to climb, mainly because of damage to agricultural land from widespread floods.

China's policymakers regard a modest rise in product prices, although unpopular with consumers, as desirable to help reverse a slide in corporate earnings and therefore ease chronic debt repayment problems between industry and banks. Ultimately, this could spur economic growth.

A senior sales executive with Yizheng Chemical Fibre, the world's fourth largest polyester-maker, said that since the crackdown on smuggling began, orders for polyester by domestic manufacturers had risen appreciably. This was because smuggled polyester from South Korea, which was being sold for less than Yizheng's cost price, had become increasingly scarce.

"We have even been able to raise the price of our polyester by a few percentage points," said the executive.

Smugglers had also taken advantage of the sharp depreciation of the South Korean won to import considerable volumes of steel, officials and industry executives said. But an executive at Shougang, a vast steel plant near Beijing, said domestic demand for its steel was picking up again, especially in the southern province of Guangdong which, he said, had relied almost entirely on smuggled foreign steel. Steel prices had fallen an average 5.5 per cent this year, officials said.

"I think we have already reached the lowest point for prices," said the Shougang executive, who declined to be named. "Now we are just gritting our teeth and hoping for a pick up in infrastructure spending."

Other evidence of progress in the crackdown on smuggling is the rise in prices of some consumer goods. Imported cigarette prices have climbed by between 10 and 30 per cent over the last two weeks, avocado pears have become scarce in Beijing, and the cost of domestic oil products has risen. The involvement of official organisations and the People's Liberation Army in smuggling prompted Jiang Zemin, the Chinese president, to order the PLA to relinquish its business interests in late July.

Book review, Page 14

**EPA WARNING** DANGER OF SLIPPING INTO DEFLATIONARY CYCLE

# Japan's wholesale prices fall 2.1%

By Paul Abrahams in Tokyo

Japan's Economic Planning Agency yesterday cautioned that the country's economy was continuing to deteriorate and was in severe danger of slipping into a deflationary spiral. The warning came as the Bank of Japan released data showing that in August the domestic wholesale price index fell 2.1 per cent year on year.

Taichi Sakaiya, the recently appointed EPA minister, said: "Japan is not in a deflationary spiral, but it is near the entrance. There is a danger of being sucked into one. Should the international environment worsen beyond expectations, Japan must be on the look-out. It would need to take more drastic steps." It blamed sluggish housing starts and personal spending caused by rising unemployment and falling incomes.

In an interview with the Financial Times, Satoshi Kawamoto, deputy director general of the EPA's co-ordination bureau, said the weak yen had helped the export sector, compensating for sluggish consumer demand. But he warned that exports to Europe and the US, which had been robust were unlikely to continue to expand. The Finance Ministry said yesterday that in the first 20 days of August the trade surplus had soared 62 per cent, with exports up 3.7 per cent and imports down 2.6 per cent.

Mr Kawamoto said the economy remained in severe difficulties and that land prices had not yet reached bottom. But he expected a combination of tax cuts and additional government spending would pull the domestic economy out of its slump. Next year's personal tax cuts of Y4,000bn ($29.8bn) and corporate cuts of Y3,000bn would boost the economy. He claimed they would have a multiplier effect of 0.43 per cent.

Public spending would also be important in helping the economy recover, added Mr Kawamoto. He dismissed fears that already heavily indebted local governments would be unwilling to spend the amounts required of them by the government. The public works multiplier was 1.3 per cent, he insisted.

The combination of tax cuts and additional spending would enable the economy to regain momentum, said Mr Kawamoto. In the medium term, the potential growth rate was 2 per cent, he said. This rate would be enough to meet the country's future pension requirements, he claimed.

Mr Kawamoto conceded that capital investment by the private sector remained subdued, but hoped foreign companies would become increasingly interested in investing in Japan. This was already happening in the financial sector, he said.

# LDP gives up hope of party deal on LTCB

By Michiyo Nakamoto and Gillian Tett in Tokyo

Japan's ruling Liberal Democratic party is preparing to override political opposition and inject more than Y500bn ($3.8bn) of public funds into the ailing Long-Term Credit Bank of Japan, in an attempt to break a political deadlock.

The government "must make a decision" to inject public funds into LTCB in spite of opposition disapproval, said Yoshiro Mori, secretary general of the LDP. An alliance of three opposition parties opposes the injection of public funds into banks.

A decision by the LDP to go it alone on LTCB removes an obstacle to a critical Diet debate on financial reform measures aimed at stabilising the battered banking sector and revitalising the Japanese economy. That debate had been bogged down by disagreement between the LDP and the opposition over LTCB.

However, it also raises the political stakes for the ruling party. Faced with public outrage over its proposal to inject public funds into LTCB, the LDP had been reluctant to force through its bail-out plans.

While the LDP would prefer compromise with the opposition and share the blame for an unpopular move, the government is under pressure to deal with LTCB urgently, speed up its financial sector reforms and boost the economy. If it waits too long, it risks damaging market confidence and triggering further turmoil in Asian markets.

Japan has also faced renewed pressure from the US to deal with its financial sector reforms with greater urgency.

During the weekend meeting between Kiichi Miyazawa, finance minister, and Robert Rubin, US Treasury secretary, US officials called on Japan to use public money rapidly to help allay concerns about weak banks.

Richard Koo, economist at Nomura, yesterday said: "Finally the US does seem to have changed its mind and realised that when you have a systemic crisis you have to recapitalise the banks."

Meanwhile, LDP and government officials have admitted that more money may be needed to recapitalise Japan's troubled banks than the Y13,000bn already set aside for that purpose. One senior financial bureaucrat says: "I personally think that it is possible that we will have to inject more tax payers money into the system [than the Y13,000bn]."

In another revelation that may also leave politicians reluctant to countenance a banking failure, the Financial Supervisory Agency, Japan's banking regulator, said that Japan's largest banks have Y24,210bn worth of credit risk through their derivatives portfolios.

The total notional volume of derivatives contracts held by the banks is estimated to be some Y2,300,000bn, the FSA has said. However, the notional value is always considerably bigger than the credit risk.

LTCB has some Y1,090bn worth of credit risk on around Y40,000bn gross notional contracts, the FSA said. The banks holding the largest amounts of notional contracts are Fuji, Bank of Tokyo Mitsubishi, Sumitomo and Sanwa.

# Need seen for spy satellite

By Michiyo Nakamoto in Tokyo

The Japanese government is considering launching its own reconnaissance satellite in order to improve its intelligence-gathering capabilities.

Leading politicians in the ruling Liberal Democratic party agreed to look into the possibility of launching a multi-purpose satellite, which could be used for scientific research, as well as for reconnaissance activities.

The move comes as tensions mounted over the possibility that North Korea might launch a second missile, following its launch of a ballistic missile over Japanese territory last week.

North Korea's aggressive stance has increased calls in Japan for immediate measures to improve Japan's security arrangements, particularly intelligence gathering.

Japan "must swiftly consider ways to gather information in a comprehensive manner," Hiromu Nonaka, chief cabinet secretary, said yesterday.

Officials in Japan's defence agency further countered North Korean claims that the missile it launched last week was in fact a satellite.

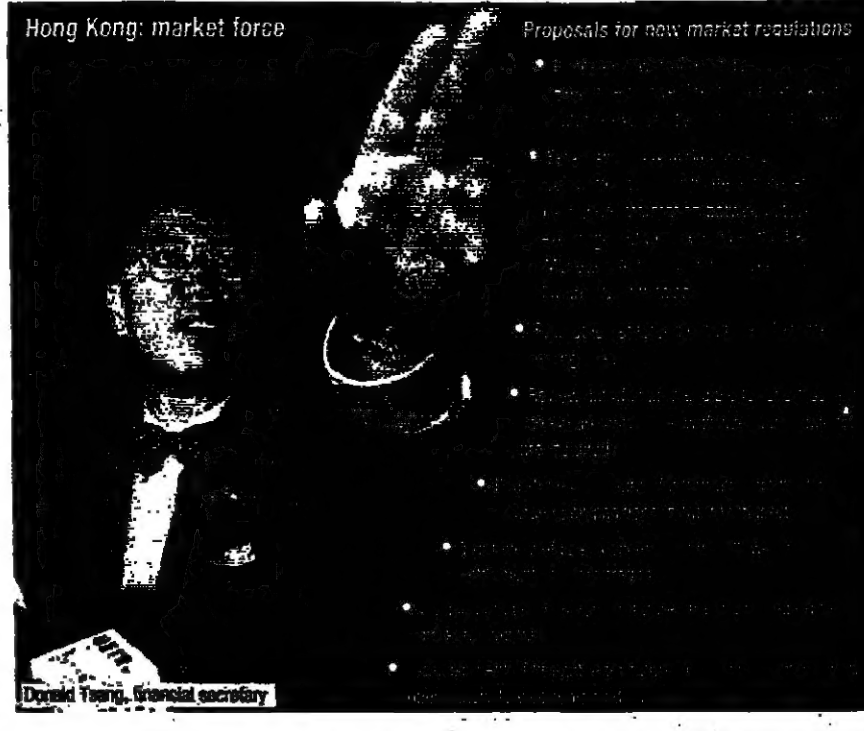
"There is a very low possibility that the launch was of a satellite," Masahiro Akiyama, the vice- defence minister said.

The missile launch has raised concerns that Japan is overly reliant on the US for the defence of national territory.

Opinion is split on whether or not Japan should step up its co-operation with the US, particularly by allocating funds for a plan to develop a theatre missile defence (TMD) system that would destroy missiles in mid-air jointly with the US.

# HK keeps its powder dry for further financial battles

**Louise Lucas** on what speculative assaults the territory's new order might have to face



Donald Tsang, financial secretary

Hong Kong's new financial order is in place, but the government is not laying down its weapons just yet: further battles remain a possibility – albeit the stakes are higher – and confidence remains a fragile commodity.

"We are not out of the woods yet but we are near the edge," said Steven Thompson, chief analyst at Nikko Research Centre. Donald Tsang, financial secretary, would appear to share his sentiments: "Mentally I must be prepared [for battle]," he said.

The armoury he has displayed so far has won applause: boosting confidence by spelling out the government's guarantee to convert Hong Kong dollars into the US equivalent, and boosting liquidity in the money market so that rates can no longer be swung by one HK$2bn (US$260m) order. Instead, it will take HK$30bn.

These moves have helped push down interbank interest rates, with the benchmark three-month rate around the 8 to 9 per cent mark, compared with 12 to 15 per cent during late August. Lower interest rates remove one of the constraints on the economy. "When we look back in the future I think we will be saying Saturday [when the monetary measures were announced] was some sort of turning point for the economy," says Mr Thompson. "I think the government has now put in place something that can engineer a soft landing for the economy."

But, as Mr Tsang himself concedes, the moves carry a cost. Stability in interest rates has been won at the expense of volatility in foreign reserves (since the government will have to use reserves to buy back Exchange Fund bills, or treasuries, from banks). And lower interest rates means lower funding costs for everyone, including the speculators whose raids on the markets he is seeking to eliminate.

A further drawback for Hong Kong lies in its long-term strategy of developing the territory's bond market, to enhance its credentials as a regional financial centre. But a vibrant bond market again plays into speculators' hands, as it increases the pool of Hong Kong dollar funding. At the same time, new issues of government bonds must be backed by foreign reserves.

"If we try to reduce this activity, it will make development of the debt market a little more difficult," said Mr Tsang.

And a new breed of speculator – possibly even banks or companies, as was the case (to their cost) in Thailand and Indonesia – could emerge: one tempted to capitalise on the differential between US dollar interest rates and Hong Kong dollar interest rates, secure in the knowledge that the latter can always be switched into US dollar at the fixed exchange rate.

However, this fixed exchange rate is still seen as having a finite life. This, combined with the slim differential on US and Hong Kong interest rates – around 1 per cent at yesterday's setting – means that the bet will be less attractive. "Clearly there's a temptation," says John Seel, economist at Bear Stearns Asia. "But I'm not sure people are now going to think that the peg is a good bet forever."

Eddie Wong, economist at ABN Amro, says the undertaking reduces the incentive for banks to fully hedge their exposure; although he notes that most would continue to cover sizeable exposures. The bigger concern is that lower interest rates – and the subsequent euphoria, as displayed by markets this week – could frustrate the asset deflation which the currency peg should bring about through higher interest rates.

The pain of higher interest rates which, compounded with the credit crunch in Asia, has crippled small businesses and cut earnings at their bigger peers, will be reduced by the recent moves. But for property, one of the pillars of the economy, prices are expected to continue falling regardless of interest rates. Other factors are at play: increasing supply, the deteriorating economy and rising unemployment, all of which should ensure prices remain weak.

Property prices have fallen some 45 per cent from the peak in June last year, and the consensus is for another 30 to 40 per cent fall. The adjustment will continue in other sectors too. Daryl Ho, senior economist at Jardine Fleming, says real problems remain, and will not be banished by a drop in interest rates alone. "External demand has slowed down dramatically. The credit crunch following the Asia financial crisis will continue to affect Hong Kong."

A combination of the suddenly higher stock market (up some 24 per cent since government intervention began on August 14) and the lower interest rates could entice speculators to launch further raids. Mr Tsang's measures have plugged several gaps but, said Mr Ho, it remains to be seen if new ways to attack can be found. "You can never fend off all the speculators by doing things like that, but you are showing a different pay-off matrix," he said.

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## Futures exchange warns of investor confusion

The Hong Kong government suffered its first head-on clash in the wake of its new market measures yesterday, when the Futures Exchange said the moves could result in confusion among investors and drive traders to other centres, **Louise Lucas reports.**

Others affected by the new rules, including commercial banks, have so far responded favourably to the government's steps to restore stability to the financial markets.

However, the main focus of the rules has been to frustrate the speculators' ploy of attacking the currency and profiting from the subsequent fall on the stock market through futures' contracts.

New rules aimed at reducing big open interest positions were brought in last week, and have been followed up with moves to increase disclosure of such positions. This has raised hackles at the Futures Exchange, which has long been seen as enjoying a relatively free reign in comparison with the stock exchange.

The new measures are expected to dampen turnover, which has risen rapidly. The Futures Exchange's counsel, William Grossman, said it was not clear if the proposals would help or mislead investors. For example, a big position – which would have to be disclosed – could simply be offsetting other positions, for example on the stock market, which would not be disclosed.

Geoffrey Yeh, chairman of the Futures Exchange, said too many restraints on the market which he oversees could stifle its development and drive traders to other futures centres.

NEWS DIGEST

**SUCCESSOR TO ANWAR**

## Mahathir will not appoint deputy prime minister

Mahathir Mohamad, the Malaysian prime minister, said yesterday he would not appoint a deputy president of the Umno ruling party to succeed him should he "pop off". A successor to the sacked Anwar Ibrahim will have to wait until next year's party election.

If Dr Mahathir does not make it, he said Umno must choose a successor among the party's three vice-presidents: the foreign minister, Abdullah Ahmad Badawi, the education minister, Najib Abdul Razak, and Mohamad Mohamad Taib, former chief minister of Selangor state.

Dr Mahathir is 72, but seems mentally and physically fit and over the past week has tightened his grip over the country. He is home minister and has just appointed himself first finance minister, assuming control of one of Mr Anwar's portfolios. **Sheila McNulty, Kuala Lumpur**

**CHINA CLAIM**

## Vietnam accused over Spratlys

China has accused Vietnam, its neighbour, of illegally seizing disputed islands and reefs in the South China Sea and demanded that Hanoi retreat immediately. "China has recently made serious diplomatic representations to Vietnam, strongly demanded that Vietnam immediately leave the reefs and guarantee that similar illegal occupations will not occur," said Zhu Bangzao, the foreign ministry spokesman.

The islands are part of the Spratly Islands, which are claimed in part or whole by Brunei, China, Malaysia, the Philippines, Taiwan and Vietnam. China did not say what it would do if Hanoi refused to withdraw. The protest comes at a time of rising tension in several south-east Asian countries, due in part to the effects of the region's deepening economic crisis. **James Kynge, Beijing**

**CAMBODIAN VIOLENCE**

## Police end democracy protests

Riot police violently broke up Cambodia's "Democracy Square" demonstration yesterday, clearing out thousands of people staging a mass sit-in in the capital, Phnom Penh, in protest against alleged electoral fraud.

Police waded into the crowd swinging rifle butts, batons and electric cattle prods to clear the area, witnesses said. Fire hoses were used to disperse two other demonstrations around the city, which sprung up after opposition leader Sam Rainsy was threatened with arrest following a Monday grenade attack on the home of prime minister Hun Sen.

The action was the second day of violence in Phnom Penh. The unrest threatens to derail Cambodia's quest for post-election stability before a new National Assembly sits on September 24. **Ted Bardacke, Bangkok**

**CORRECTION**

## Takeshi Noda

Takeshi Noda is secretary general of Japan's opposition Liberal party and not of the ruling Liberal Democratic party as reported in the FT of September 7.

# Shipley wins crucial NZ confidence vote

By Terry Hall in Wellington

Jenny Shipley's minority National government won a crucial vote of confidence in New Zealand's parliament yesterday, a few hours after Bill Birch, finance minister, disclosed a sharp deterioration in the economy.

The vote, won 62-58 with the help of independent MPs, followed a chorus of claims by opposition MPs that the government's economic policies were responsible for the worsening fiscal position and rising unemployment.

Mrs Shipley and Mr Birch blame the Asian financial crisis, argue that New Zealand is coping well, and that the economy will promptly recover, helped by the recent fall in the NZ dollar and interest rates, and exporters' successes in finding new markets.

Mrs Shipley called for the confidence vote, the first time in New Zealand's parliamentary history a ruling government has risked such a move, in an attempt to prove to the country that her government had the support of a majority of MPs.

Following the break-up of the coalition with New Zealand First last month, Mrs Shipley relies on the support of the rightwing Act Party, dissidents, and former members of other parties.

The narrowness of her victory, with some dissidents declaring they would not support her on issues such as privatisation, means Mrs Shipley will have a frustrating time trying to implement her party's policies. An early election cannot be ruled out.

In the latest Economic and Fiscal Outlook, an update on the April Budget, Mr Birch announced a series of sharply reduced Treasury forecasts because of more recent data showing economic growth lower than expected and taking account of a deteriorating world economic outlook.

The Treasury is forecasting that, mainly due to falling tax revenues, government accounts will slip into deficit from next year, for the first time since Mr Birch became finance minister in 1994. It expects a surplus of NZ$2.6bn (US$1.3bn) in 1997-98, and a surplus of NZ$100m in 1998-99 (against previous estimates of NZ$1.4bn and NZ$1.2bn).

Mr Birch said the government would have to borrow in the years 1999-2000 when it faces a deficit of NZ$700m, and again in 2001-2002 when a deficit of $NZ300m is forecast. Net debt rises to 24.4 per cent of gross domestic product in 1997-98 and to 26 per cent between 1999 and 2001.

Growth is now forecast to be minus 0.5 per cent for the current financial year to March 1999. In April, the Treasury estimated GDP would be 2.7 per cent.

It is now forecasting growth will pick up to 2.9 per cent in 1999-2000 (lower than the previously forecast 3.9 per cent), rising to 4 per cent in 2000-2001 (previously 3.5 per cent). Unemployment is forecast to rise from 7.7 per cent this year to peak at 8.5 per cent early next.

The Treasury said its downward revisions were due to financial market volatility, lower earnings from agriculture, and the Asian downturn.

# IMF and Manila agree to cut growth targets

By Tony Tassell in Manila

The International Monetary Fund and the Philippines have agreed to reduce economic growth targets for 1998 and 1999 and have set out the terms of a $1.37bn standby finance facility for the country, central bank officials said.

The cut reflects the sharp slowdown in the Philippines economy. But if the new targets are met, the country will this year narrowly avoid the recessionary trends seen elsewhere in Asia, and post a sharp recovery in 1999.

Economists said the targets might still be too optimistic, particularly for next year, and further downgrades were expected.

For 1998, the target for gross national product growth had been reduced to 1.5 per cent from the 3 per cent envisaged when the standby facility was agreed last March, the officials added. For 1999, the target had been cut from 5 per cent to 4.1 per cent.

Economists said that though the Philippines in 1998 was not likely to see the sharp economic contractions experienced by some other countries in the region, its economy had slumped from 5.8 per cent GNP growth in 1997, because of poor performance in farming, manufacturing and construction.

A continuing drought brought on by El Niño has been a key factor behind the downturn. Noel Reyes, of brokers Anscor Hagedorn Securities, said agricultural output fell 11.5 per cent in the second quarter, the sharpest drop in 31 years.

Overall, for the first time since 1992, economic growth had turned negative in the second quarter, with a fall of 0.7 per cent. If the trend continues in the third quarter, as many economists expect, the Philippines will technically move into recession.

While apparently agreeing to the reduced forecasts for economic growth, the IMF and the Philippines government were still late last night negotiating other revised terms of the standby facility. The talks had been expected to end yesterday after a two-week review by IMF officials of the country's economy.

The key area of difference appears to have been the size of the fiscal deficit targets for 1998 and 1999.

The IMF is also believed to have opposed the government's plans for a tax amnesty.

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DEFENCE BOEING AND AIRBUS TANKERS MIGHT BE FLOWN BY NON-ROYAL AIR FORCE CREWS WHILE REFUELLING RAF COMBAT PLANES

# Private cash may fund military aircraft

By Alexander Nicoll, Defence Correspondent

The Ministry of Defence will today announce plans to replace ageing tanker aircraft using the private finance initiative, which aims to attract private cash for public projects.

Ministers are inviting innovative solutions to replace 24 converted VC10 and nine Tristar aircraft, all of which will go out of service by 2011. The contract would be the biggest under the PFI – inherited by the present government from its Conservative predecessor – and would bring the private sector closer than at present to the front line of combat.

Officials indicated the tankers could be flown by non-Royal Air Force crews, although they stressed this would depend on the nature of the bids. No decisions had been made, they added.

The ministry has awarded 21 PFI contracts with a total value of about £3bn ($4.9bn) but these have been far removed from the frontline, mostly in services such as training in the UK. The biggest so far was an £800m contract over 10 years to modernise and operate the department's internal telephone system.

Private-sector staff were involved in maintaining equipment during the Gulf War but contracting out combat-related tasks has remained controversial within the armed services. Officials said the RAF would need to be convinced by potential suppliers that operational efficiency would not be impaired.

But some officers said the forces were keen to increase private sector activities and had been disappointed at the lack of enterprise shown by companies bidding for some PFI contracts. Companies would be most likely to offer converted commercial jets such as the Airbus 300, 310 or 330 or the Boeing 757 or 767, industry experts said.

Airbus said it would offer what it called the "multi-role tanker transport", based on the "Airbus aircraft family". But experts said it would also be open to companies which specialise in modifying aircraft to offer second-hand civilian airliners.

The ministry plans to pay for the provision of an air-to-air refuelling service, as well as transport of freight and passengers. Payment would be according to usage and good service and the 20-year contract would be fixed-price.

Services which could be provided include the aircraft and their support, training of flight crews, handling of passengers and freight, fleet management and management of the tanker fleet's main operating base, currently at Brize Norton in southern England.

The ministry intends to issue formal requests next year. Its openness to PFI solutions underlines recent moves towards reform of procurement highlighted in the government's recent strategic defence review.

NORTHERN IRELAND CONTRACT MAY BE WORTH $330m

# Electricity group set to build plant in republic

By John Murray Brown in Dublin

Viridian, the former Northern Ireland Electricity company, says it is in the "advanced stage" of negotiations to build a power station in the Irish Republic, a contract that could be worth £200m ($330m).

Viridian recruited staff from Yorkshire Electricity in northern England to develop its generation business. Industry sources say the company is close to agreeing terms to construct a power plant for CRH, the Dublin-based building materials group, to supply energy for its cement plants. Officials say an announcement is expected in the next few weeks.

The move to build independent power stations is in line with former monopoly companies across the UK utilities sector that are seeking to increase unregulated revenues by developing business overseas. It comes as Viridian suffers a drop in revenues from its supply, distribution and transmission business in Northern Ireland, after price cuts imposed by the regulator.

The Irish republic is a natural market and Viridian has held separate talks with the Electricity Supply Board, the Irish state power company, and Marathon, the US oil company, which has developed a gas field off the south-west coast and is supplying the republic's power supply network.

Viridian's move is driven by changes in European Union rules that stipulate that by February 2000, member states open up 28 per cent of their market to outside competition. This is to rise to 33 per cent within five years.

Implementation of the directive is left to the discretion of states, officials say. But in the republic's case it will mean the top 300 business units in the country – sites rather than actual companies – will be able to opt for outside power companies.

Viridian said it had had talks with half of the 300 businesses, with a view to supplying power.

The Republic of Ireland has about 3,000MW of capacity. But demand is projected to grow in line with the economy by 150MW a year after 2000, according to forecasts by the Economic and Social Research Institute in Dublin.

Viridian is also expected to announce it has reached agreement with an Irish foods company on the supply of a CHP – combined heat and power – unit. It is also "very active" in bidding for other CHP contracts in the republic. The plants would range from 5MW to about 50MW.

Patrick Haren, the chief executive, says the company is looking to increase its unregulated income "not through a single transaction but through a portfolio of business transactions".

Viridian was a bidder for transmission assets in Australia and is considering acquiring distribution assets in India in partnership with Tata, an Indian conglomerate.

## Terror measures may be relaxed

Bertie Ahern, the Irish prime minister, signalled a relaxation in Dublin's new anti-terror measures yesterday, indicating the government would not be invoking powers to prosecute suspected terrorists of the Real IRA on the basis of membership of the organisation, writes **John Murray Brown.** The move follows the announcement of a ceasefire by the breakaway republican group, which was greeted with a cautious welcome. The powers included a provision allowing police on the word of a senior officer to bring charges against a suspect on the basis of membership of a proscribed organisation. But Mr Ahern added that those those accused of involvement in the Omagh bomb would be vigorously pursued.

Baroness Jay at the Executive PA Show in London yesterday PA

## Baroness takes a message for secretaries

Baroness Jay, the new minister for women, made her debut yesterday at a conference for executive personal assistants in London, writes **Deborah Hargreaves in London.** She called for secretaries to be given a clear career path. Lady Jay is the daughter of Lord Callaghan, the Labour prime minister ousted by Margaret Thatcher's Conservatives in 1979, and the ex-wife of Peter Jay, a former UK ambassador to the US.

Lady Jay – also leader of the House of Lords, the unelected upper chamber of parliament – said she believed secretaries should be given training to allow them to progress to higher levels. Secretaries need a better career structure to break down barriers at work and climb the executive ladder, she said.

The conference was Lady Jay's first public appearance since she was given responsibility for women in a revamped social security department following a cabinet reshuffle in July.

Lady Jay will be the chief government representative in a campaign for contentious reforms to the House of Lords in the next few months. The main part of government's legislative programme this year will be a bill abolishing the voting rights of hereditary lords.

BRITISH ASSOCIATION SCIENTISTS HEAR OF US/EUROPEAN MISSION AND OF NEW FEARS OVER GENETICALLY MODIFIED CROPS

# Nasa about to rescue wandering Sun probe

By Clive Cookson, Science Editor

"One of the most dramatic deep space rescues ever" is expected to be successfully concluded later this week, scientists heard yesterday at the annual conference of British Association in Cardiff, capital of Wales.

Controllers at Nasa's Goddard Space Flight Centre in Maryland will fire thruster motors to put the $1bn Soho (Solar and Heliospheric Observatory) spacecraft – an unmanned solar observatory – back into its correct position facing the Sun.

They lost contact with Soho – a joint project of the US and European space agencies – on June 25 when a faulty radio command accidentally sent the 10m-wide craft into a spin. For more than a month it was lost in space 1.5m km from Earth with no power to communicate or operate its 12 scientific instruments.

"We had no idea if it would ever get back in touch," said Richard Harrison from the UK's Rutherford Appleton Laboratory. "We knew it was a race against time, because without power and without direction from Earth it wouldn't be long before Soho's orbit decayed."

International space agencies worked together to locate and reactivate the Sun probe. Since radio contact was re-established on August 5, scientists and engineers have been thawing its fuel tanks, which were frozen at -100 deg, and recharging the batteries.

The critical manoeuvre, provisionally scheduled for tomorrow or Friday, will be to fire the thruster rockets to make Soho face the Sun again. Mr Harrison was confident this would work. "It looks to be going exactly to plan," he said.

The final test will be to switch on the 12 instruments, which were designed to operate at 20 deg, and discover how many have survived the extreme cold.

Before its loss, Soho, launched in December 1995, had provided a vast amount of new information. For example, an instrument built by the Rutherford Appleton Laboratory revealed huge tornadoes in the solar atmosphere and Earth-sized explosions on the Sun's surface.

The scientists had hoped to extend the mission for several years. "What Soho has already told us has revolutionised our way of thinking about the Sun, and we hope this extra lease of life will take us a few more steps down the road to understanding the workings of our star," said Mr Harrison.

● Research by the Institute of Terrestrial Ecology suggests virus resistance could spread more readily from genetically modified crops to weeds than realised.

The agricultural biotechnology industry has put considerable research into developing such crops: virus-resistant squash has been approved in the US.

Alan Gray, head of the institute's Furzebrook research station, said viruses played a bigger role in controlling weeds than ecologists had realised.

# Spanish car parts company to open $20m factory

By Brian Groom in London

Antolin-Irausa, a Spanish car components manufacturer, yesterday announced plans for a £12m ($20m) factory in Ramsgate, in the Thanet area of south-east England.

Locate in Kent, the inward investment agency, persuaded Irausa, which makes interior fittings, to opt for Thanet in preference to the English Midlands and northern France. Gordon Pollard, managing director of Irausa's UK operation, said factors included transport links, availability of labour and grant assistance from the UK government's trade department. Thanet is fighting to retain development area status in the government's review of regional assistance.

Irausa will supply customers including Ford, Peugeot and the Rover subsidiary of BMW. The county of Kent, which includes Thanet, has 50 automotive component companies employing 6,000 people, attracted by proximity to UK and mainland European markets.

Mr Pollard said issues such as the European single currency and the strong pound did not affect the company's long-term decision. He hoped Britain's monetary problems would be resolved by the time full production began in 2000.

David Ralls, chief executive of Thanet's municipal authority, hoped that the investment – coupled with recent announcements such as Pzifer's 1,000-job expansion in nearby Sandwich – would turn Thanet into a net contributor to the Kent economy. The area has been hit hard by the decline of seaside holidays and unemployment was 9.4 per cent in July. This compared with a 4.6 per cent UK average and 2.7 per cent in south-east England.

● Ron Davies, the chief minister for Wales, yesterday broke the ground for a new castings factory which will allow expanded production at Toyota's engine plant in north Wales, John Griffiths writes. The move is a big part of a £150m investment to raise total annual engine output to 400,000 by the 2001, almost four times the current level. The factory will supply cylinder heads and blocks for Avensis and Corolla models built at Burnaston in the English Midlands. The total workforce at the plant will increase from fewer than 200 to more than 600.



# Post Office sends freedom plea

By Andrew Bolger, Employment Correspondent

"We want and need commercial freedom," says John Roberts, chief executive of the Post Office. "Will we get it this time for real – or are we going to get another fudge?"

His appeal is to Peter Mandelson, chief industry minister, who is expected to unveil the conclusions of a government review of the organisation next month.

The government has promised the Post Office will stay in the public sector but the Treasury and the prime minister's office have insisted on examining the option of selling a minority stake. That could raise more than £2bn ($3.3bn) if 49 per cent of the shares were sold. Mr Roberts has just returned from Australia and New Zealand, where he has been studying postal deregulation.

He said everything he had seen confirmed his belief that the UK Post Office needed the freedom to strike big commercial deals if it was to prosper in a liberalised European postal market.

Deutsche Post, the German post office, recently acquired a 22.5 per cent stake in the international carrier DHL. KPN, the privatised Dutch postal and telecommunications group, acquired TNT Post Group in 1996. The UK Post Office recently agreed a joint venture with Selektvracht, a Dutch delivery company, but the deal was secured under powers allowing it to enter joint ventures only on a limited scale.

"If you want to be a global player, you've got to link," says Mr Roberts. "No national post office will be able to stand on its own. But we would only need to do one big deal."

Analysts say a regime which set dividends at 40 to 50 per cent of pre-tax profits could allow the organisation to retain another £150m a year for investment. The Post Office made pre-tax profits of £651m in 1997-98, but had to hand over £338m to the government, in addition to £217m in corporation tax.

One problem with the sale of a minority share is that borrowing by the Post Office would still count towards public sector borrowing. But analysts believe it could make a successful pitch to the Treasury to be allowed to fund a significant acquisition or venture, as long as there was a commercial case.

Disposal of such a big stake would be strongly opposed by the CWU postal union but it could be defended by Mr Mandelson as technically stopping short of full privatisation. But Mr Roberts says the CWU has helped to create a more settled industrial relations climate, in part because members were increasingly aware of the threat posed to their jobs by international competitors. Mr Roberts hopes this autumn will see the successful conclusion of long-running negotiations on improving productivity.

## NEWS DIGEST

MANUFACTURING

### Factory output stronger than suggested, say official data

Manufacturing output has been stronger than recent surveys suggested, according to official figures yesterday. The data, from the Office for National Statistics, confounded City expectations of a fall in output during July. Weak activity had been reported by purchasing managers and the Confederation of British Industry, the employers' lobby. "It may be that the official output data are now 'marking time', while the surveys catch up with the weak picture in the output data a few months ago," said Michael Saunders, at Salomon Smith Barney investment bank.

The amount of goods produced by manufacturers increased by a seasonally-adjusted 0.1 per cent in July. Total industrial production was up 0.4 per cent during July, thanks to increased energy and water production. The ONS made a series of revisions to this year's manufacturing figures. Output increased by 0.2 per cent in the second quarter, compared with the earlier estimate of 0.1. Output in July was 0.6 per cent lower than a year earlier.

Using the output figures, the National Institute of Economic and Social Research estimated the UK economy grew by 0.5 per cent in the three months to August, unchanged from the rate in July and June. "These data suggest the economy is now growing at or slightly below trend, and do not indicate that a recession has started," it said. **Richard Adams, London**

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ENGLISH MIDLANDS ECONOMY

### Birmingham figures 'shocking'

The chamber of commerce in Birmingham, England's second-biggest city, said its latest quarterly economic survey revealed "the most shocking set of trading statistics since the depths of the last recession". More than half of members reported falling sales, orders and profits. Two-thirds reported falling exports. There was also further decline in the service sector, where members reporting increased sales and orders fell from 40 per cent to 25 per cent. The findings follow a spate of depressing results in the Midlands – especially from small- and medium-sized engineers – leading to profits forecasts being slashed by up to 10 per cent. Roger Dickens, president of the chamber, said: "There will be severe casualties this winter if there are not dramatic reductions in damningly high interest rates." **Juliette Jowit, Birmingham**

PRIVATE INVESTORS

### No sign of panic, says survey

Private investors are sitting tight on their unit trusts and shares, despite the recent stockmarket volatility, according to a survey by Fidelity Investments, the fund manager. Only 1 per cent of investors said that they planned to sell as a result of market falls and 12 per cent intended to invest more. This stoicism may be a reflection of the fact that private investors tend to have much longer time horizons than their institutional counterparts – 85 per cent of those surveyed were investing for five years or more. The findings support the views of leading stockbrokers and fund managers, who say there is no evidence of the panic-selling by small shareholders that characterised the 1987 crash. Philip Warland, director-general of the Association of Unit Trusts and Investment Funds, said: "If anything, there is less buying [of unit trusts]. But we are certainly not seeing a great wave of selling. There is not any particular panic." **Jean Eaglesham, London**

HORSE RACING

### Sport demands more cash

Representatives of the British Horseracing Board are to meet Jack Straw, the home secretary, to press the case for more funding from the betting industry. Peter Savill, chairman of the BHB, will meet Mr Straw, whose ministerial responsibilities include gambling, on October 5. The board's financial plan argues the sport requires an annual investment of £80m ($132m) from betting turnover. Mr Savill will also press for a Royal Commission on gambling, the first for 20 years.

Racing's campaign for a greater share of betting turnover continued yesterday with an attack on a report commissioned by the off-course bookmakers' trade association and carried out by Coopers & Lybrand, the accountancy firm that was also the auditor for the BHB. The study criticised the financial plan and its estimate of racing's financial needs. The Betting Offices Licensees Association paid Coopers £35,000 to compile the report. Mr Savill sacked Coopers as the BHB's auditors, ending a four-year association. "Any accountancy firm could have told you that you don't work for competing clients," Mr Savill added. **Colin Cameron, London**

RAILWAY SAFETY

### Track owner fined after crash

Railtrack, the privatised owner of most of Britain's rail infrastructure, and two rail maintenance companies were yesterday fined a total of £150,000 ($247,500) after a freight train accident in south-east London. Several people working under railway arches narrowly escaped serious injury. The three companies, Railtrack, South East Infrastructure Maintenance and Southern Track Renewals, pleaded guilty. South East Infrastructure was yesterday fined £82,500, Railtrack was fined £60,000 and and Southern Track Renewals was fined £7,500. But the Save Our Railways campaign said: "The punishment has not fitted the crime. The fine for Railtrack is equivalent to less than two hours of their profits."

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**INTERVIEW** IAN SCHRAGER, HOTELIER

# He's in with the inn crowd

The one thing his 'theatrical' hotels have in common is that they must all be different, says **Richard Tomkins**

Spare, stark, minimalist: you can pick your adjective to describe Ian Schrager's New York office. But in the end, it comes down to the same thing.

It is as though someone had stood a barrel of white paint in the centre of the room, fixed an explosive charge to it, lit the fuse, and retired to a safe distance to await the inevitable outcome.

Remorselessly white, the sparsely-furnished, warehouse-style space on Manhattan's 10th Avenue is as hip as the designer hotels for which Mr Schrager has become famous.

So far, these include Morgans, the Royalton and the Paramount in New York, the Mondrian in Los Angeles, The Clift in San Francisco and the Delano in Miami Beach. But lately, the portfolio has been expanding as fast as an exploding paint barrel.

In New York, Mr Schrager recently bought the 400-room Radisson Empire and the 394-room Barbizon Hotel, shortly after snapping up the 684-room St Moritz Hotel from under the nose of Donald Trump.

He is also developing the Henry Hudson Hotel and the McAlpin Hotel in New York, and the Miramar resort in Santa Barbara, California. In London he is due to open two hotels in a joint venture with Burford next year: the St Martin's Lane in Covent Garden and the Sanderson in Soho.

Over the past 15 years, Mr Schrager, a 52-year-old New Yorker, has become the undisputed king of designer hotels. But "designer", it turns out, is a label he dislikes.

"I think people miss the point when they call them designer hotels," he says. "It's like saying that Walt Disney cartoons are a success because of the animators.

"The design is just one part of the formula, but it's the way the whole thing gets put together that touches you in some visceral way.

"It's like when you go to a great nightclub and you can cut the electricity in the air. Why? Because it all comes together. It's the same thing with a hotel."

Mr Schrager knows something about nightclubs. Back in the 1970s, he and his late partner Steve Rubell opened Studio 54, a discotheque that, for a while, was the hottest spot in Manhattan. But that chapter of his life ended when he and Mr Rubell were convicted of tax evasion.

After serving a 13-month prison term, the two decided to apply their experience of the nightclub business to hotels, opening Morgans in 1984.

At the time, Mr Schrager explains, the hotel industry was characterised by an extraordinary level of sameness, best summed up in the Holiday Inn slogan: "The best surprise is no surprise".

**The Royalton boasts a men's room so confusing in layout and design that users are notoriously uncertain which way to point**

"The hotel business had lost all product distinction and had turned into a pure commodity business. It was one segment of business in this country where innovativeness was completely lacking."

The pair decided to try a new approach, acquiring hotels and refurbishing them with chic, sophisticated decor that conveyed a sense of excitement and created a buzz.

"If there was one word I would use to characterise it, I would call the experience a theatrical one," Mr Schrager says.

"When you go to see a good movie or a good play, or read a good book, or go to a good sporting event, it lifts your spirits and brings a smile to your face. It's the same thing we are after."

Mr Schrager cites the Royalton, which within its stylish lobby, boasts a men's room so confusing in its layout and design that it notoriously leaves users uncertain which way to point.

"When people walk into the lobby of the Royalton and look around, it's a feast for the eyes: they haven't seen anything like it before. Then they walk into the bathroom and walk out again not knowing how to use the fixtures, and they tell their friends: 'You can't believe what the bathroom's like', and they want to take them in there for a look."

The trouble with boutique hotels, as Mr Schrager prefers to call them, is that everyone is opening them now – even the big hotel companies. Starwood Hotels and Resorts, for example, has just launched a boutique brand called W, and Patriot American Hospitality recently acquired Malmaison, a British boutique hotel operation, with the intention of expanding it.

Mr Schrager says he is unconcerned: after all, he has a 15-year lead over everyone else. "It's a fact of life in business that if you do something good, other people are going to start doing it as well. We just have to get better and better at doing what we do. And we have to pull new rabbits out of the hat, entering new markets and doing other kinds of hotels."

Mr Schrager acknowledges that he held talks with Barry Sternlicht, Starwood's chairman and chief executive, about a possible sale of the business last year, and he does not rule out the possibility of some other deal with Starwood. In the meantime, however, he is planning an extraordinarily ambitious expansion.


Rooms boom: there are enough trendy people to fill his 'boutiques', says Shrager Justin Sutcliffe

With the help of NorthStar Capital Investment, his New York-based financial partner, he plans to build a portfolio of five to seven properties in California, nine or 10 in New York, and six or seven in London. He also wants to open in other European cities – Paris, Milan, Madrid, Barcelona – before spreading into other big US cities such as Atlanta, Boston and Chicago.

But are there really enough trendy people in the world to fill so many boutique hotels?

"I don't think the mass market model is what is going on in business any more. You can bring freshness and thinking outside the box to every single industry," Mr Schrager says.

"The idea the sceptics are not getting is the sophistication of people, and the fact that they won't accept the hotel rooms and the generic commodities they have been forced to stay in.

"People want some fun, they want some entertainment: they want something more than just a place to sleep. I think you can have a hotel with originality and creativity and distinction and innovativeness in every city in the world, adjusted for the particular market it is in."

JOHN W. HUNT ADVISES

# Dream jobs that fade into reality

You may have a promising career, but you're not here to enjoy yourself

*Dear Professor Hunt*
*I have what should be an exciting job. I am a brand manager for a well-known detergent product. I travel the country, meet interesting people, negotiate with agencies, printers and the media, and control a budget of £20m. I am 28 years old and know I have a big future ahead of me – if I want it. The problem is that I don't think I do. I'm already tired of this game, frustrated by corporate politics and disillusioned by the glaring inadequacies of senior management. Has my mid-career crisis come early?*

Probably not. Research shows that it is people in your age bracket who are the most dissatisfied with their career. In your case, as in most, I would suggest this is because your expectations and the realities of employment are in conflict.

From an early age people are fed a glamorous image of the world of business, an image that is often far from reality. Businesses, as with all organisations, are dependent on two factors: repetition and compromise. It is a safe bet that neither of these featured on your list of requirements when you were seeking employment, and neither characteristic fits well with people's desire to experience novelty, endless change and intellectual stretch through their work.

Few job advertisements say: "Come and join the army of auditors in the AAA accounting firm." Instead, recruiters offer promises of endless development and personal challenge. In reality, very few people find their relationship with their employer totally satisfying and, on the face of it, this seems to be an entirely natural state of affairs. By joining a company you give up some of yourself. The organisation does not want some of your best skills and so only a part of you is employed.

For example, you may be a fine tennis player but this skill is not wanted from day to day. So you suppress your athletic skills and use your intellectual and interpersonal skills. But then the company does not really want all of these either.

Your capacity to tell jokes does not seem to be admired at meetings of the marketing strategy committee. Your story-telling skills have to be curtailed so that you and your colleagues can spend the bulk of your working day engaged in productive endeavours. Even those intellectual skills you bring to bear on devising strategy are not always stretched as much as you would like.

One reason for the huge growth in consulting companies has been the intellectual stretch they offer those people wanting to realise their potential at work. Yet even here, where on a regular basis the clients change, the industry changes and even the country may change, there is eventually repetition.

As your expertise grows, the range of assignments you handle tends to shrink. You become known as the expert in your field and by that process you limit yourself, until, like headhunters, you wind up using your undoubted intellectual skills to conduct information searches of fewer and fewer possibilities. Indeed, were it not for the money and their dependants, most employees in this field would probably love to move on and do something else more personally satisfying.

The bottom line is that no job can be satisfying all the time.

What you must do is minimise those elements you find boring and maximise those you find interesting, but you must be realistic.

If you have reservations about your career, take a look at the work done by some of your colleagues in other functions.

Your peers in accountancy may be spending hour after hour auditing a client's accounts. Your university friends from the engineering faculty may at this stage be learning the intriguing skills of quality control. Neither activity may require or draw on the full range of qualifications that these people have.

Perspective is important, and at least in brand management there is the big-picture challenge and excitement of developing a marketing strategy that will, one hopes, improve sales.

Two of the most common fantasies of older colleagues caught, as they see it, in a web of dependencies is to leave the corporate world and either start their own business or buy a farm.

Both escapist fantasies can be difficult options to pursue, involving countless responsibilities and duties that will irritate you just as much as anything you encountered when working for your employer.

Ask yourself whether you are expecting too much. Are you hoping all your goals will be met by employment? Are you slowly dropping one outside interest after another in the mistaken belief that your career will meet all your expectations?

If yes, remember that work is not the be-all and end-all. Then ask yourself whether you could find another job that would use more of your skills. If intellectual stretch is important, you might consider seeking further qualifications, with a view to opening the door to more intellectually demanding pursuits – in, for example, one of the professions.

Finally, begin this analysis now, before you find yourself weighed down by a mortgage and children.

Now is the stage of your life when you can and should take some risks with your career. Otherwise you will spend the rest of your life talking about it to an ever smaller audience.

*John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.*

**MANAGEMENT** CHILDCARE

# Guess who's going to work now?

Companies are finding new ways to help employees juggle work and family, writes **Victoria Griffith**

Alan Coverstone, who teaches English literature at Montgomery Bell Academy, a Nashville private school, had planned to take this summer off to care for his newborn son Mitchell. When his employers said they desperately needed him to teach a remedial summer course, he agreed, but only if he could bring his baby along.

Mr Coverstone's wife had already promised she would go back to work as manager at an employment agency and the couple did not have any alternative care. So the school set up a nursery in a spare classroom and asked secretaries and other teachers to take turns looking in on the baby, who Mr Coverstone says spent half his time sleeping.

"They would take Mitchell for walks in his stroller, or give him a bottle," says Mr Coverstone. "One time we had a 20-year-old intern with the school take a two-hour shift, but he came out looking pretty frazzled."

As families juggle work and childcare, children at the workplace are becoming a far a more common sight.

"It happens a lot more frequently than you might suspect," says Judy Presser of WFD, the work/family consulting group. "When you think about it, most of us have either brought kids to work ourselves, or seen a co-worker bring in their children."

Ms Presser's 12-year-old son was at the WFD offices the day I spoke to her. "He's got two weeks free in between summer camps," she explained. "I suppose he's old enough to stay home alone, but that might be pretty lonely. I feel more comfortable having him here where I can keep an eye on him."

In theory, improving company benefits and paid leave should make bringing children to work less necessary. Corporations, increasingly sensitive to employees needing to strike a balance between job and family, often offer parental benefits.

Workers commonly get time off to care for sick youngsters, and many companies offer back-up care through temporary nanny agencies. In Massachusetts, a new law guarantees families three days a year for activities such as parent-teacher conferences, doctor's visits and piano recitals.

In reality, these benefits do not come close to meeting the needs of many families where both parents are working – particularly in the US, where holiday time is so limited. Children end up at the office for a number of reasons. Breast-feeding mothers may want to fit in a daily feed during work hours. In the US, schools are generally closed for six weeks during the year – as well as a three-month summer break – while parents get only two to four weeks.

Many parents feel uncomfortable about leaving a very young child in the hands of someone that neither they, nor the child, knows. Considering the time it often takes to get a child accustomed to a new care giver it may be unrealistic to ask worried parents to entrust their youngsters to a stranger.

Corporations are aware of the problem. While few have specific policies, some say they enjoy seeing children at the workplace occasionally. A number have tried to address emergency situations, such as "snow days", by formally inviting children. Schools in the US often close at the first hint of snow, while businesses tend to stay open in all but the very worst weather. During a bad winter, such as the one that hit the north-east three years ago, snow days can add up quickly. New Jersey had 17 in a single season.


BankBoston, NationsBank and Deloitte Touche, the accountancy firm, have all organised programmes for school-age children at their facilities on such days. "Everyone loves it – the workers with kids and those without," says Jack Curley, a human resources consultant with BankBoston.

"It adds a wonderful, humanising element to the workplace when you're sitting at a meeting and you see a bunch of kids outside building snowmen.

Corporations should do more, says Ms Presser. WFD set aside a room with some toys, a television, and computer games for children. "The company doesn't have to have anything fancy," she says. "Any office can keep a few toys and kids' videos in the cabinet of a conference room.

"Companies may also consider allowing workers to telecommute on days when normal childcare breaks down. Although the parent may not manage full productivity that day, it could turn out to be less disruptive than bringing the youngster to the office."

While bringing children into work sometimes seems the best alternative, parents must be sensitive to co-workers. A sleeping baby in the corner is unlikely to bother anyone, but an active toddler may. Joe Savage, a Boston real estate developer, says his partners were pleased when he took his infant son Marco to meetings two years ago.

Once Marco started crawling around, however, he became too much of a distraction.

"He would be going around untying everyone's shoes," says Mr Savage. "No one could get any real work done, so I stopped bringing him. Maybe I can start again when he's a little older and can entertain himself."

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# Tchaikovsky gets the Bard treatment

**William Weaver** is given fascinating insights into the composer's work at the upstate New York music festival

Over the past decade, the summer music festival held on the campus of Bard College in upstate New York has become an eagerly-anticipated event, drawing enthusiastic audiences and prompting comparisons with nearby Tanglewood and Marlboro. But the Bard Festival is no imitator. Its directors – Leon Botstein, Bard's president, and Robert Martin, a Dean of the college – are educators as well as musicians; and so rather than provide a succession of concerts, the festival offers music in a cultural, even scholarly context.

Like its predecessors, the 10th festival focused on a single composer: Tchaikovsky (past protagonists have included Brahms, Dvořák, Haydn and Ives; next year's festival will be devoted to Schoenberg). The Tchaikovsky expert Leslie Kearney was invited to edit a volume of studies, entitled "Tchaikovsky and his World"; she was then joined at Bard by other scholars for a series of panel discussions examining the composer's life and work in a broad context.

The musician/scholar Marina Kostalevsky, a Bard professor, devised a fascinating dramatisation of the composer's correspondence with Nadezhda von Meck, with tactful, apposite musical insertions (among them the delicate Adagio from Debussy's piano trio, which the 17-year old composer wrote while in the employ of Tchaikovsky's patron). Staged with intelligent simplicity by Elise Thorn, the double reading brought both the composer and his eccentric but thoughtful sponsor to life.

**Bard professor Marina Kostalevsky devised a dramatisation of the composer's correspondence with his eccentric patron, Nadezhda von Meck, with tactful, apposite musical insertions**

The concerts and recitals avoided, for the most part, Tchaikovsky's most popular pieces, but presented a number of chamber works – *Souvenir de Florence*, the third string quartet, and a selection of his piano music for children, delightfully played by some talented young musicians. The 14-year old twins, Susan and Sarah Wang, played a two-piano arrangement of the *Nutracker* Suite with total assurance and a winning mixture of discretion and panache. Stripped of its orchestral garb, the superb musical architecture of the piece emerged.

While Tchaikovsky's religious music is not unknown, the solemn, affecting performance of his St John Chrysostom Liturgy of 1878, given by the Russian Chamber Chorus of New York with the grave, bearded bass Nicholas Mokhoff as protodeacon, seemed to bring a whiff of incense, a suggestion of a procession with icons and smoking censers into the auditorium.

In the foyer of Olin Hall, the mock-up of the new Bard theatre, designed by Frank Gehry, gave an indication of Botstein's ambitious plans. In some ways echoing Gehry's Guggenheim Museum in Bilbao, the Bard theatre has sparked some polemics, but already it suggests that the Bard festivals of the next millennium will include more staged works. In the meanwhile, admirers of Tchaikovsky's operas were fortunate to hear a concert version of his *Maid of Orleans* in the festival tent.

A rarely-performed work even in Russia, this Joan of Arc opera was revived seven years ago at the Bolshoi, and for this Bard performance, the Bolshoi sent a large group of singers, several of whom had sung in that historic production. One of these was the dramatic soprano Makvala Kasrashvili; though suffering from a cold, she offered a convincing portrayal of the unconventional heroine, warrior and shepherdess, with some scenes of steely power and others of sober tenderness. Botstein, like most conductors, relishes drama; and this work, much closer to *Mazeppa* than to *Eugene Onegin*, gave him and the orchestra ample opportunity to display their vigour, especially in the great battle scene and the coronation scene.

The festival tent also housed the final orchestral concert, featuring the "literary" symphonic works – *The Tempest*, *Francesca da Rimini* and *Manfred* – and a youthful (1853-4) Tchaikovsky orchestration of the Adagio sostenuto of the Kreutzer Sonata; oddly, the piece sounded very little like Tchaikovsky but very much like Beethoven.

One of the most enthralling events of 1990s theatre: Mary Louise Wilson's performance as Diana Vreeland

# Stepping into the high priestess of fashion's shoes

THEATRE

**ALASTAIR MACAULAY**

**Full Gallop**
**Hampstead Theatre, London NW3**

Who was Diana Vreeland? My companion asks me this question before *Full Gallop* began, at the Hampstead Theatre, where it is now playing. In the interval, she turned to me wide-eyed and said: "I believe totally that Vreeland was just like that." This is a yet greater tribute even than when I first saw this show off-Broadway 18 months ago; then, my companion had known Vreeland well, and at precisely the period when this show is set, and could verify its remarkable accuracy.

The accuracy with which Diana Vreeland – high priestess of fashion for well over three decades – is caught in *Full Gallop* is one achievement; the vital spark with which she is lit from within on stage is another. Thanks to Mary Louise Wilson's performance, *Full Gallop* becomes one of the most enthralling events of 1990s theatre. More than that, it is a rare testament to the endurance of the human spirit.

It is, above all, funny and quotable. This Diana Vreeland is as vivid as a character in Dickens. Just as Mr Dombey's mother-in-law could cry "Nature intended me for an Arcadian. Cows are my passion – Cows, and china", so Vreeland can hear announced "Lettuce is *great!* (though I'm not sure that it's a food)." Her enthusiasm is at once absurd and life-enhancing: "Europe is Great! Great! *Great!*" or: "Swifty Lazer is about one foot tall, totally bald and a terrible person. And I just like him." At her lowest ebb, and after a very long pause, she suddenly remarks, "As Joan Crawford said, 'If you want the girl next door, go next door.'" The best quotations of all, which transcend humour, are about colour; but you must hear, not read, the lyric outpouring with which she hails the colour pink.

Vreeland is at her lowest ebb because, after being sacked as editor *Vogue* in 1971 and having spent her last sou on a grand tour of Europe, she has returned to her New York apartment in quest of starting all over again. Everyone urges her to take a job she doesn't want, nobody will come to dinner, but she is undaunted. Even though she can remember the 1920s and can drop names from Coco Chanel and Josephine Baker to the Duke of Windsor and Audrey Hepburn, she is still raring to go. But at what? Vreeland's occupation is gone.

Mary Louise Wilson occupies this stage alone throughout; occasionally, you hear the off-stage voice of her maid. I love the way Wilson's voice so often hits a defiant *forte* on the very last syllable of a sentence: Vreeland's spirit becomes, with her, a constant, leonine crescendo. Her mood fluctuates throughout. Nothing is more affecting than a lazy little half-dance she does to a little jazz on the record-player, with her back to the audience. The stretch of a foot, the tilt of the hips, the flip of a wrist: she is just marking time, this is just the memory of a dance gone by, and it is still jam-packed with essence of Vreeland and with life itself.

# White sings the Washington blues

NEW YORK THEATRE

**BRENDAN LEMON**

**Dinah Was**
**Gramercy Theatre, Off Broadway**

Which female singer is the supreme interpreter of American popular song? Music critics have a habit of turning the question into a contest between Ella Fitzgerald, smooth and carefree, and Billie Holiday, troubled and drug-addled. There are plenty of other contenders for the crown, however, and Dinah Washington, the subject of a new play by Oliver Goldstick, *Dinah Was*, is one of them.

Why Washington has inspired so few playwrights would appear mysterious. Her glorious, bluesy voice can give perfect shape to a night of aimless, alcohol-accompanied soul-searching, and the life which that voice expresses was certainly crammed with messy incident. As with Holiday, the temptation is strong to dramatise the biography in maudlin terms, a tendency that Goldstick has not entirely avoided.

The play takes place in Las Vegas in 1959, four years before Washington died of an accidental drug overdose. The singer is poised to become the first black woman to receive top billing along the city's casino strip. In this pre-civil-rights era, however, even a leading entertainer encounters segregation. Washington is denied a room at the Sahara Hotel, so she mounts a protest in the lobby, opens a bottle of booze, and pours forth the details of her life.

If the play's dialogue in flashback can ring hollow, and its scenes are sometimes awkwardly staged (David Petrarca directs), its musical numbers are electric. We hear touching Washington standards like "I Wanna Be Loved" and "Sometimes I'm Happy", and down-and dirty classics like "Long John Blues" that are more associated with others. A rendition of "What a Difference a Day Makes" is sufficiently marvellous to erase from one's memory the 1970s disco version by Esther Phillips.

That these songs create such a sensation has everything to do with who is performing them: Lillias White. White only recently stepped into this role; it was originated by Yvette Freeman, who was said to be more realistic in her interpretation. But the numbers are so outsized in their emotions that a performer can safely invest them with the most shamelessly show-bizzy of mannerisms. If this makes White's portrayal less an impersonation of Washington than a slightly vulgar approximation, so be it. When a performer is this exciting, quibbling about veracity is beside the point.

Over the past few years, New York theatre-goers have become so accustomed to White stealing shows on Broadway that they may not fully appreciate the intimacy of her work here , in the small, elegantly renovated Gramercy Theatre. They have seen her juice the band in "How to Succeed in Business", jazz up a bar room in "The Life", even play Grizabella in "Cats". She has generally done supporting roles, however. Producers seemed afraid to turn her loose on a star part. Perhaps they worried that she would overwhelm a production – or, worse, become a diva.

But White gives off no airs, only sparks. She shares the spotlight. In "Baby, You Got What It Takes", her duet with Darryl Alan Reed, she conducts a master class in the combustibility of the couple. And in "A Rockin' Good Way", her duet with Adriane Lenox, she ignites the drama of with musical generosity. This ensemble mood may not quite be true to the spirit of Dinah Washington – a performer symbolic more of the loneliness of the individual – but it is a distortion that one willingly accepts in exchange for more satisfying truths.

**MUSIC IN LONDON** THE PROMS

# Heavyweight invasion from the US

Two American bands blew into town last week for the Proms, and in full force. The Los Angeles Philharmonic brought all the players required for Stravinsky's original *Firebird* score, and for their conductor Esa-Pekka Salonen's own *L.A. Variations*; the Chicago Symphony boasted the whole army prescribed by Mahler's Fifth, Alban Berg's Three Orchestral Pieces op. 6 – and Harrison Birtwistle's new *Exody*.

*Exody*, subtitled "23: 59: 59" (think clock-time: end of day, year, century, millennium), was a Chicago commission. Daniel Barenboim conducted its premiere there last February, to respectful acclaim, and this was the first British performance.

We half expected something apocalyptic, rather like Birtwistle's *Triumph of Time* a quarter-century ago. Certainly *Exody* has a formidable, monumental quality. Despite some grand, impacted climaxes, however, it is less explosive than *Triumph*; and though the sense of mythic-archaic ritual is retained, the procession here suggests a steady, restless development.

This time, Birtwistle has said, the journey is into, and out of, a labyrinth. It ends when the original entrance-point (highest and lowest Cs in the orchestra) is rediscovered, and becomes an exit (cue final horn-note, *piano* down to *pp*, on a reassuringly consonant E). In between, ruminative strings spin out long, late-Mahlerian lines; there are efflorescences of solo woodwinds, and choked irruptions of heavy brass – and every so often, quiet tickings and chimings that denote the inexorable passing of time.

It was starkly impressive, and Barenboim and his players delivered it superbly. By comparison the Mahler Fifth was tame and disappointing: finely executed, but with limp tempi in the opening movements, and a decorous avoidance of shocks.

Tchaikovsky's "Pathétique" Symphony the next night was far more assured. If Berg's Three Pieces sounded clotted, that was hardly Barenboim's fault; they *are* clotted, both with instruments and with musical ideas, and it takes heroic efforts to sort them out.

In the two sparky Los Angeles programmes, Salonen stayed well within within his range. His *Firebird* was swift and imaginative, not the heavy Technicolor fresco that the massive 1910 scoring often prompts; similarly with the Four Lemminkäinen Legends of Sibelius. A witty new John Adams piece, *Slonimsky's Earbox*, bubbled and gurgled disarmingly.

Salonen's own, fizzing *L.A. Variations*, confessedly a Finn's response to the American scene (where he has spent six years now), teems with striking orchestral ideas. Beyond doubt, it "comes off"; what exactly it is *doing* is another matter. These are variations on a a pair of hexachords, and perhaps the later sections – which seem to strive suddenly after deeper *Affekt* than the earlier hi-jinks – are just more variations. Repeated hearings have not persuaded me otherwise. Still, it is an excellent party-piece.

**David Murray**

INTERNATIONAL

# Arts Guide

## AMSTERDAM

**DANCE**
**Het Muziektheater**
*Tel: 31-20-551 8911*
Dutch National Ballet: *Carlson-Humphrey-Tharp*. Programme of works by the three choreographers. Includes Carolyn Carlson's Slow, heavy and blue and Twyla Tharp's In the Upper Room; Sep 9, 10, 11, 13, 14, 15

**OPERA**
**Netherlands Opera, Het Muziektheater**
*Tel: 31-20-551 8911*
Götterdämmerung: by Wagner. New staging by *Pierre Audi*, conducted by Hartmut Haenchen. Cast includes Heinz Kruse, Jeannine Altmeyer and Henk Smit; Sep 12

## BADEN-BADEN

**CONCERT**
**Festspielhaus**
*Tel: 49-7221-30130*
Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Schoenberg and Mahler; Sep 9

## BASLE

**EXHIBITION**
**Kunstmuseum**
*Tel: 41-61-271 0828*
*www.kunstmuseumbasel.ch*
A House for Cubism: the Raoul La Roche Collection. Display of works collected by the Swiss banker and given to the museum in the 1950s and 1960s. Includes works by Picasso, Braque, Léger, Gris, Le Corbusier and Ozenfant; to Oct 11

## BEIJING

**OPERA**
**The Forbidden City**
*www.turandot-on-site.com*
Turandot: by Puccini. Conducted by Zubin Mehta in a staging by Zhang Yimou. With the Maggio Musicale Fiorentino; Sep 9, 10, 11, 12, 13

## BIRMINGHAM

**CONCERT**
**Symphony Hall**
*Tel: 44-121-212 3333*
Czech Philharmonic: in a programme of works by Janáček, Beethoven and Dvorák; Sep 9

## COLOGNE

**CONCERT**
**Philharmonie**
*Tel: 49-221-2801*
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Sibelius, Salonen and Stravinsky; Sep 10

## DUSSELDORF

**CONCERT**
**Tonhalle**
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Copland, Sibelius and Stravinsky; Sep 9

## FRANKFURT

**CONCERTS**
**Alte Oper**
*Tel: 49-69-134 0400*
● Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Salonen and Bruckner; Sep 12
● Radio Symphony Orchestra Frankfurt: conducted by Leonard Slatkin in works by Enescu, Barber and Schumann. With soprano Linda Hohenfeld; Sep 10, 11

**OPERA**
**Oper Frankfurt**
*Tel: 49-69-21237 999*
*www.frankfurt-business.de/oper*
● La Périchole: by Offenbach. Conducted by Catherine Rückwardt in a staging by Peter Eschberg, with designs by Peter Pabst; Sep 12
● La Traviata: by Verdi. Staging by Axel Corti; Sep 11, 13

## LONDON

**CONCERTS**
**BBC Proms, Royal Albert Hall**
*Tel: 44-171-589 8212*
● BBC National Orchestra of Wales: conducted by Mark Elder in works by Stravinsky, Szymanowski, Debussy and Holst. With the BBC National Chorus of Wales and soprano Valdine Anderson; Sep 10
● Bournemouth Symphony Orchestra: conducted by Yakov Kreizberg in works by Glinka, Rachmaninov and Schmidt. With piano soloist Arkady Volodos; Sep 9
● Chamber Orchestra of Europe: conducted by Nikolaus Harnoncourt in Beethoven's Missa Solemnis. With the Arnold Schoenberg Choir; Sep 11
● The Last Night of the Proms: Andrew Davis conducts the BBC Symphony Orchestra, Chorus and Singers in a programme including the European premiere of Hugh Wood's Variations for Orchestra, works by Gershwin, Thomas Adès and Parry. With baritone Thomas Hampson and piano soloist Jean-Yves Thibaudet; Sep 12

**EXHIBITION**
**British Museum**
*Tel: 44-171-636 1555*
Persian and Indian Manuscripts and Paintings: the Royal Asiatic Society celebrates its 175th *anniversary with an exhibition of* objects rarely seen by the public. The highlight is the Book of Kings made for Muhammad Juki, one of the great Persian manuscripts of the 15th century; to Sep 13

## LOS ANGELES

**OPERA**
**L. A. Opera, Dorothy Chandler Pavilion**
*Tel: 1-213-972 8001*
*www.laopera.org*
● Carmen: by Bizet. Washington Opera production by Ann-Margret Pettersson, designed by Lennart Mörk. The conductor is Bertrand de Billy and the title role is sung by Jennifer Larmore; Sep 11, 13, 16
● Werther: by Massenet. Conducted by Emmanuel Joel in a co-production with Théâtre du Capitole Toulouse staged by Nicolas Joël and designed by Hubert Monloup. The title role is sung by Ramón Vargas; Sep 9, 12, 15

## LUCERNE

**CONCERTS**
**International Festival of Music**
*Tel: 41-41-226 4400*
*www.LucerneMusic.ch/*
● Chicago Symphony Orchestra: Daniel Barenboim conducts works by Strauss, Berg and Tchaikovsky; Sep 11
● Chicago Symphony Orchestra: Daniel Barenboim conducts works by Schoenberg, Wagner and Beethoven; Sep 12
● Vienna Philharmonic *Orchestra: conducted by Lorin* Maazel in works by Mozart and Bruckner; Sep 14
● Vienna Philharmonic Orchestra: Lorin Maazel plays violin in a work of his own composition and conducts a work by Sibelius; Sep 15

## MUNICH

**CONCERTS**
**Philharmonie Gasteig**
*Tel: 49-89-5481 8181*
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Wagner and Mahler; Sep 14
● Munich Philharmonic Orchestra: conducted by Rafael Frühbeck de Burgos in a programme inlcuding works by Manuel de Falla, Rimski/Korsakov and Ravel; Sep 9, 10, 11

## NEW YORK

**EXHIBITIONS**
**Metropolitan Museum of Art**
*Tel: 1-212-879 5500*
*www.metmuseum.org*
The Nature of Islamic Ornament, Part II: Vegetal Patterns. Second in a four-part series on Islamic ornament from the 9th to the 18th century. Includes rare brocades and carpets; from Sep 10 to Jan 10

**Whitney Museum of American Art**
*Tel: 1-212-3272801*
Mark Rothko: major retrospective of the American abstract artist, including loans from Europe and Japan. The 100 works on display *encompass all phases of* Rothko's career, from the late 1920s to 1970. The show arrives from Washington and will travel to Paris; from Sep 10 to Nov 29

## TOKYO

**CONCERTS**
**Suntory Hall**
*Tel: 81-3-3584 9999*
● NHK Symphony Orchestra: conducted by Chung *Myung-Whun in works by* Messiaen, Schechedrin and Tchaikovsky. With violin soloist Maxim Vengerov; Sep 10
● Yomiuri Nippon Symphony Orchestra: conducted by Gilbert Varga in works by Ravel, Bartok and Tchaikovsky; Sep 11

## VIENNA

**CONCERT**
**Musikverein**
*Tel: 43-1-5058 6810*
Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Schoenberg and Mahler; Sep 15

## TV AND RADIO

● **WORLD SERVICE**
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**EUROPEAN CABLE AND SATELLITE BUSINESS TV**

● **CNN International**
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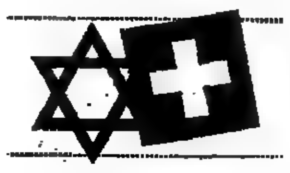
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

# When sanctions work

There is a moral in the Swiss bank saga, say **John Authers** and **Richard Wolffe**



The clearest lesson from the Swiss banks' $1.25bn settlement with holocaust survivors is this: threatening to impose sanctions can work.

Every important breakthrough in the negotiations came soon after threats from US local government officials to impose sanctions (banning, for example, Swiss banks from certain kinds of business in New York).

The settlement itself came two weeks before a threat to start the sanctions and a week after Moody's, the rating agency, published a report saying that UBS, Switzerland's (and Europe's) biggest bank, might lose its triple-A credit rating if sanctions were imposed.

Given how rarely sanctions work (they seem to have done little or nothing to change the behaviour of Saddam Hussein in Iraq or Slobodan Milosevic in Serbia), it makes sense to ask why and how the threat of local-government sanctions have been so effective with the Swiss banks. This is the more important because the settlement could have implications for other European banks and companies being sued in the US over their actions during the second world war.

Obviously, Swiss banks are not like Iraqi or Serb dictators. They have boards of directors which must respond to shareholders' concerns. All the same, it is not just a simple matter, when dealing with western companies, of threatening sanctions and expecting them to buckle. The US state department consistently opposed the threat of sanctions. Even Israel Singer, secretary-general of the World Jewish Congress, the principal pressure group acting for the holocaust survivors, frequently made known his distaste for them.

In order to make the threats credible, it was essential to co-ordinate and even limit them. This was the job done by Alan Hevesi, the comptroller of New York City, who was first brought into the campaign by Mr Singer in 1995.

Mr Hevesi spent two years building support among more than 900 officials across the US – mostly drawn from state and city treasurers and pension fund controllers. All of them frequently used the services of investment banks to access the capital markets.

The bulk of his time was taken up dissuading radicals from taking precipitate action. Mr Hevesi and his colleagues never barred Swiss banks from existing business. They merely set deadlines before sanctions would be imposed, in an attempt to increase the pressure on the banks' negotiators. "I understood that there was always the possibility that the threat of sanctions was stronger than the actual imposition of sanctions," he says.

Mr Hevesi points out that even when he and his colleagues announced sanctions in early July, they continued to give the Swiss opportunities to compromise before sanctions came into operation. "We didn't hit them at all for another two months, and we did it in four stages. But the sanctions were all increasing in severity, first on the banks and than later on Swiss business."

But carefully calibrating the threat was not enough. Mr Hevesi and his colleagues also had to take into account the position of the US government. UBS and Credit Suisse said sanctions were unconstitutional, as foreign policy was the responsibility of the federal government, not states and cities.

Normally the US government would have dismissed the matter as a private lawsuit in which it had no part to play. It remained opposed to the threat of sanctions throughout. All the same, the state department agreed to get involved in negotiations. Indeed, it came close to brokering a settlement, and did lay down the structure for the deal that was eventually struck.

US officials justified their involvement on two different – and sometimes contradictory – grounds: that many thousands of holocaust survivors were now US citizens; and that the dispute threatened to harm relations with a trading and diplomatic partner.

Stuart Eizenstat, the deputy secretary of state concerned, says: "With sanctions, we had to keep our eye on the broader relations with Switzerland, as well as our interest in seeing that the survivors were dealt with fairly. We realised our two goals had inconsistencies, but our job was to narrow the inconsistencies."

While the state department opposed sanctions throughout the talks, privately officials admit the threat of sanctions - not their imposition - helped bring the Swiss to a compromise. Even Mr Eizenstat, who strongly denies backing sanctions even behind the scenes, concedes that "sometimes having sanctions in the background can produce results. But it is a little bit like the atomic bomb. Once you drop it, there is an awful lot of collateral damage."

The state department's views help to explain why the settlement was mediated by a US judge, not a US diplomat. Edward Korman, the federal judge had more power to intervene in the dispute – and all participants agree this gave him a crucial advantage compared with the state department.

"The judge was reading the riot act in ways that I couldn't. I was convinced that the power of the federal court could make threats to both sides, to make both of them take notice," says Mr Eizenstat. It was also important from the defendants' standpoint that there was a court that was putting pressure on them. That was easier for them politically to go back to their people in Switzerland."

In short, careful co-ordination, the circumventing of state-department objections and the power of the US courts were all vital in making sanctions effective. But the story still leaves two important questions unanswered.

First, will the US legal system be the forum for remaining holocaust-era disputes? Mr Korman did not think the case belonged in his court, and thought it should be settled. The lawsuits were never even registered as a class action.

The other is: was the settlement fair? Some estimates suggested that the debts of UBS and Credit Suisse to holocaust survivors could be as high as $16bn. If so, the Swiss drove a hard bargain. For $1.25bn, they prevented sanctions and also settled on behalf of the Swiss National Bank, which a Swiss historical panel showed handled far more stolen gold than any of the commercial banks.

On the other hand, an investigation by Paul Volcker, the former chairman of the US federal reserve, appears to have found barely SFr100m ($65.7m) in so-called "dormant accounts" in Swiss banks. This was a tiny proportion of the settlement agreed last month. On those grounds, the threat of sanctions extracted much more from the banks than could ever be proved as a debt.

It is true that the settlement covers more than dormant accounts. It is also true, as Michael Hausfeld, one of the plaintiff's lawyers puts it: "We said from the beginning and throughout that this was not just a matter of money. Once the psychological barrier [of $1bn] was broken, it was clear that the amount became a admission of guilt."

All the same, mismatch between the Volcker report and the settlement would seem to vindicate the lawyers who insisted on litigation rather than consensus (Mr Volcker's investigation was backed by the World Jewish Congress and the Swiss Bankers' Association). It might also support the belief in Switzerland that the banks paid too much.

# LETTERS TO THE EDITOR

## Russia must focus more on regions to extricate itself from crisis

*From Mr Mark Scibor-Rylski.*

Sir, Here in Warsaw we look at the Russian situation close up. Russia has not managed to restructure its economy – and the backing which Russia has had in the form of investment and loans looks to have been wasted. The Polish experience is that reform has to be rapid because it is painful. Then it works as it has worked here. It cannot be carried out piecemeal or via compromises. To make the transition to a free market economy, there has to be a national will and the desire to change. There must also be universal understanding as to what is to be done and why. While the Russian government cannot manage the industrial-military complex and cannot collect its taxes, no reform can be effective.

Many investors now know that Moscow is not Russia. The economic policies of the whole region have to be sound if the outcome is to be gradual recovery. Hence, until someone credible and authoritative explains publicly what has to be done, and convinces the population, the chaos will continue. In addition, the government must govern, have a strategy, and be demonstrably in charge. That is still to come.

What can be done now? Many here think that Russia is inherently not a unified country and cannot be managed from the centre – with regions which could be assisted separately by the west. The role of Moscow seems to be further reduced in current circumstances, and should focus on the privatisation of strategic industrial fiefdoms. If Russia is seen as a series of cantons, it will be easier to manage reforms and achieve real regional privatisation with less inertia. Certain regions are well ahead of others already, so there is hope that role models can be created.

We consider the mafia problem to be a symptom rather than the problem itself – a vacuum is being filled, with some parallels to the US 1920s prohibition era. It is a real disincentive to trade and collaboration, however. Hence it needs to be selectively legitimised/extinguished. The nightmare scenario here in Warsaw is that Russia tries to return to central control (while labelling it as reform Russian-style). Russia as part of the USSR was only able to feed itself due to the subsidised shipping of food from its satellites (such as Poland). That option is no longer open.

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*From Tosh Sheshabalaya.*

Sir, Lex's attack on Russia's robber barons and east Asia's "crony capitalism" ("Das Kapital revisited", August 31) notes that markets need secure foundations: "the rule of law, clean financial systems and good governance if not fully fledged democracy".

Were you by any chance thinking of India? Indeed, the prescription to calibrate foreign capital inflows to domestic market realities forms the centrepiece of the BJP government's "swadeshi" economics. This may explain why India remains relatively untouched by Asia's economic meltdown.

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## Transport links are failing UK companies

*From Mr Hanns Gunther Bollig.*

Sir, Brian Groom writes of worrying signs that the UK's north-south divide may be re-emerging ("One country, two economies", September 2).

One of the main problems for the industry in the north of the UK is the lack of hinterland and the comparatively poor transportation infrastructure. As an organisation which helps companies finding new European and global markets and supplying to them, we often find that the lack of fast transportation services leading to harbours and to the continent severely hamper UK companies in establishing an ongoing fast-track supply relationship abroad.

The UK companies in the north could be ideally positioned to supply to the economic centre of Europe and also to the fringes, if road and rail links and port turnaround times could be speeded up and made more effective. However, as long as a leading car manufacturer in the north of Germany finds it "easier to source from Toulouse [in the far south of France] than from Birmingham [the centre of the UK]", UK manufacturing companies in the north will find it difficult – even with a potentially weaker pound – to benefit from the economic upturn in the rest of Europe.

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## Take a more private view of debtor nations

*From Ms Ann Pettifor.*

Sir, Indonesia and Russia are not the first to suffer from what Mr Anantha-Nageswaren calls the west's "bloodless colonialism" (Letters, September 2). For decades now western lenders, both private and public, have lent recklessly in good times and at bad times transferred losses to citizens of the poorest debtor nations, as well as to their own taxpayers. Today's events in Russia, Indonesia, South Korea and Thailand are the climax to decades of reckless lending – to countries like Zaire, Kenya, the Philippines.

We in Jubilee 2000 Coalition would wholly endorse Mr Anantha-Nageswaren's call for less western protectionism and other measures to assist debtor nations recover solvency. However, he and his colleagues in the banking sector need to recognise that, as with de facto private defaults, so with highly indebted nations. Bad debts will have to be recognised as such and written off.

The International Monetary Fund should have no locus in this process, as it is both a major creditor, and the agent of all private and public creditors. We need a new, independent and fair process for arranging orderly workouts between creditors and government representatives. We need this for Rwanda, Congo Kinshasa, Tanzania and Nicaragua – no less than for Russia, Indonesia, Thailand or South Korea. And we need it urgently.

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BOOK REVIEW PETER MONTAGNON

# Good in parts

"Mais Patten pleure – but Patten is weeping." Thus the incredulous reaction of a collection of sophisticated drinkers watching the handover of Hong Kong on television in a bar in the south of France.

They may have been taken aback by this un-English display of emotion, but no one who had followed Mr Patten's progress as the last governor of Hong Kong could be surprised. There is no doubting the intense attachment he formed for Britain's last significant colony and its people, nor his contribution in helping to build one of Asia's most civil societies.

That will be his legacy to Hong Kong, and it is an important safeguard against political excess by its new Chinese masters. But it does not of itself guarantee a worthwhile book.

Rupert Murdoch, the owner of HarperCollins, Mr Patten's original publisher, faced a writ for saying he found the book boring. The criticism is not exactly fair, but Hong Kong – and Asia – have moved on with remarkable speed since the handover, which deprives the work of some immediacy.

China's communist rulers will dislike the book, not just because of the rightful condemnation of their record on human rights but because Mr Patten refuses to accept that an offence against the party is an offence against China itself.

The book's deliberate insult lies in the myriad exquisitely poisoned barbs in the form of quotations from Confucius designed to undermine the party's authority. Such a device is clever politics in the west. In the east it is rudeness, which will give its target an excuse for ignoring the more substantial message.

Mr Patten explains that his experience as governor forced him to think about why he believed in both free markets and democracy, basic political tenets that he had hitherto taken for granted. The book is thus a voyage of self-discovery, but as such it falls between at least three different objectives: it is part memoir, part polemic about Asian values and part political testament.

In time the account of Mr Patten's tortuous democracy negotiations with China will

Last governor: but Patten's experiences do not make a good book

become important source material for historians, but the disappointment now is that the book's punches are pulled. There are barbed references to "a senior retired diplomat" but the strident Sinophile Sir Percy Cradock,

EAST AND WEST
**By Chris Patten**
**Macmillan**
**£22.50, 328 pages**

a former UK ambassador in Beijing, who caused so much trouble from behind Britain's own line, is not mentioned by name.

But many of the central Chinese demons who are have moved on. Lu Ping, who famously described Patten as "a sinner for a thousand generations", and Zhou Nan, the tetchy head of the New China News Agency in Hong Kong, have disappeared from the limelight. Jiang Enzhu, who led the Chinese side in the democracy negotiations, is a rare exception, having become the Communist party's most senior official in Hong Kong.

What holds the book together is the warmth of Mr Patten's feeling for Hong Kong and his real joy in its people, many of whom, he points out, fled to the territory from the mainland and battled against the odds to create a life for themselves and their children. If Hong Kong became supremely rich under British rule, it is due to their flair and determination.

This also leads on to the debate about Asian values. Mr Patten has no time for those in Asia, epitomised by the wily Lee Kuan Yew, Singapore's founding father, who argue that Asia owed its earlier economic success to its own set of values far removed from the decadence, individualism and welfarism of the democratic west.

Quite the contrary, Mr Patten says. The fact that Asia's economies had outgrown its political structures with their interfering and distorting cronyism was one reason for last year's crash. Previous growth was founded on something basic and universal: globalisation of the world economy, free trade and fiscal prudence that kept savings up and inflation low.

Asia's supposed values – based on thrift, hard work, education, loyalty to family, respect for hierarchy, the willingness to place community before self and, above all, low priority on plural democracy – are a mirage not reflected in the diversity of Asian societies, he says. Above all, Mr Patten argues forcefully against the suppression of democracy, an aspiration of all people everywhere. Free markets cannot ultimately be separated from democracy, he says, an uncomfortable assertion given the woeful record of his predecessors in Government House.

It is difficult to argue with this, but still it may not find much resonance in mainstream debate. One reason is that the Asian values discussion has moved on since the crash prompted doubts on Asia's own part. Another is that Asian-style democracy, too often dependent on faction and patronage rather than policy, has not always served its people well, as the plight of Japan shows. Yet another is that all this has to be set in an evolutionary context.

No doubt there are some, even in China, who recognise that political reform has to come. But one cannot simply impose a western template on a historical process. The argument is about pace and immediate priority. To a poor Indonesian caught up in riots, Singapore with its material freedom and orderly society seems like Nirvana. Few in China want to end up in Russian-style chaos. Institutions, like the law, need strengthening before democracy is established. In its fumbling way China is attempting that.

Despite his five years in Hong Kong, Mr Patten still has some difficulty communicating with all but the more westernised Asians. Much of his undoubtedly encyclopaedic knowledge of China was learnt from afar. He went there only once as governor and his interlocutors ran rings round him. He is decent, compassionate, perceptive and cultured, but he is a quintessentially British man, and his book ultimately reflects British values, as its final paean to Rab Butler shows.

"Who on earth is Rab Butler?" they will be asking in Washington, if they get that far. Back in Britain, people will wonder whether they will not have to dust the book down at some later date – if not the next generation, the one after – better understanding of man who once again may standing for high office.

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Wednesday September 9 1998

# Russia's power vacuum

As president of Russia, Boris Yeltsin's days are numbered. If he does stagger on to the end of his normal tenure in 2000, as he insists, it will be as a shadow of his former self. He came to office, and destroyed the former Soviet Union in doing so, thanks to his acute understanding of the power process. All that remains today is a capacity to surprise with his erratic decision-making. That includes his decision to sack Victor Chernomyrdin, his prime minister, five months ago, and now his desperate efforts to get him reinstated.

Yet even if Mr Yeltsin is more part of Russia's problem than its solution, it is not the moment for him to quit. With no government in office, and Mr Chernomyrdin blocked by a hostile Duma, the president represents the only authority in a power vacuum. But this is the moment for Mr Yeltsin to dump Mr Chernomyrdin.

The future prime minister must be able to command a majority in the parliament, to be appointed at all. But most important, the future prime minister must understand and curb the power barons who really run the country. Unless that comes first, no government will be able to implement an economic policy, for good or ill.

The crisis in Russia is more about power than it is about the economy. For the country remains far less reformed, far less democratic, and far less of a market economy, than the outside world liked to pretend. It is run by a collection of oligarchs and power brokers who have drained the central government of its authority. The most important are the financial and industrial barons who won the battle for the most lucrative privatised parts of the Soviet economy, and the regional governors who run huge territories, and control their revenues, far from the feeble writ of Moscow.

Mr Chernomyrdin is one of those industrial barons. But he is associated with failure, responsible for stalling the reform process, and has antagonised the powerful opposition, including the communists, in the Duma. He enabled his fellow barons to flourish, but he cannot control them. That is why some want him back.

One of the few positive aspects of the present crisis is that, so far at least, all parties are respecting the constitution. In order to persuade the Duma to accept any prime minister, Mr Yeltsin may have to give away more of his sweeping powers. That would be no bad thing. But he owes it to Russia to find a candidate who can reimpose some semblance of central authority. Only then can the country be brought back on to a path of economic reform.

# Free and fair?

Through a series of measures to thwart currency speculators, Hong Kong's government may finally be winning the battle to preserve the currency peg. The trouble is that in the process, the authorities are undermining Hong Kong's reputation as a free and fair place to do business.

Changes in the rules of Hong Kong's currency board were introduced at the weekend. One of the most important was to allow banks to use government bonds to obtain Hong Kong dollar funds, improving the liquidity of the interbank market and so making it harder for speculators to manipulate interest rates. This was followed on Monday by a tightening of regulations on stock and futures markets trading.

The reaction of the stock market was positive. Whether the measures will save the currency peg, though, is not yet clear. Greater interest rate stability, combined with uncertainty over whether government share-buying will resume, should deter many speculators, but a small, open economy such as Hong Kong's must still be vulnerable.

Whatever the merits of the latest measures, they have unfortunately added to worries that Hong Kong has become prey to interventionism. Already, the authorities have moved to shore up the property market by halting land sales, and have intervened in the stock market. The onus is now on the government to prove these concerns unfounded.

By far the most pressing issue is how to deal with the Hong Kong Monetary Authority's shareholdings, as there is a clear conflict of interest in a regulator holding shares in the banks it regulates. Shares must be placed firmly at arm's length, and there should be no new share buying. There should also be a statement that the shareholdings are temporary, and will be disposed of when market conditions permit.

More detail is also needed on some of the more recent changes. The HKMA should announce the new mechanism for setting the discount rate as soon as possible, to counter claims that it has too much discretion. And the government should seek to reassure investors that the power granted to Hong Kong's chief executive, Tung Chee-hwa, to give directions to the financial markets in extreme circumstances will not be misused.

Finally the government needs to squash suspicions that it is attempting to place limits on Hong Kong's process of adjustment to its lost competitiveness, which has already seen property prices fall by 50 per cent. Prices may still have to fall further if the exchange rate peg is to be maintained in the long run.

In its fight against the speculators, Hong Kong must take extreme care not to destroy the principles that have been the secret of its success.

# Nigeria's move

Three months after assuming office, General Abdulsalami Abubakar has made a remarkable impact on Nigeria. The authoritarian regime of his predecessor, Gen Sani Abacha, has been replaced by an administration which appears genuinely committed to setting in train economic reforms, while keeping to the new target of a handover to civilian rule in May next year.

This deserves a constructive response from the same governments which rightly made the former regime an international pariah.

Since taking office in June, Gen Abubakar has released political prisoners, and opened up the political arena to new parties. On Monday, in a relaxed press conference that was itself a striking demonstration of Nigeria's changed mood, he followed up this encouraging start.

He announced the publication of the 1995 constitution, held back by Gen Abacha, and invited the electorate to respond. He renewed his promise of a May handover, and gave a progress report on anti-graft measures under way. These include the overhaul of the state-owned Nigerian National Petroleum Corporation and moves to recover state funds from corrupt officials. Every assistance should be given by western governments and banks to efforts to track down foreign accounts in which most of these funds are held.

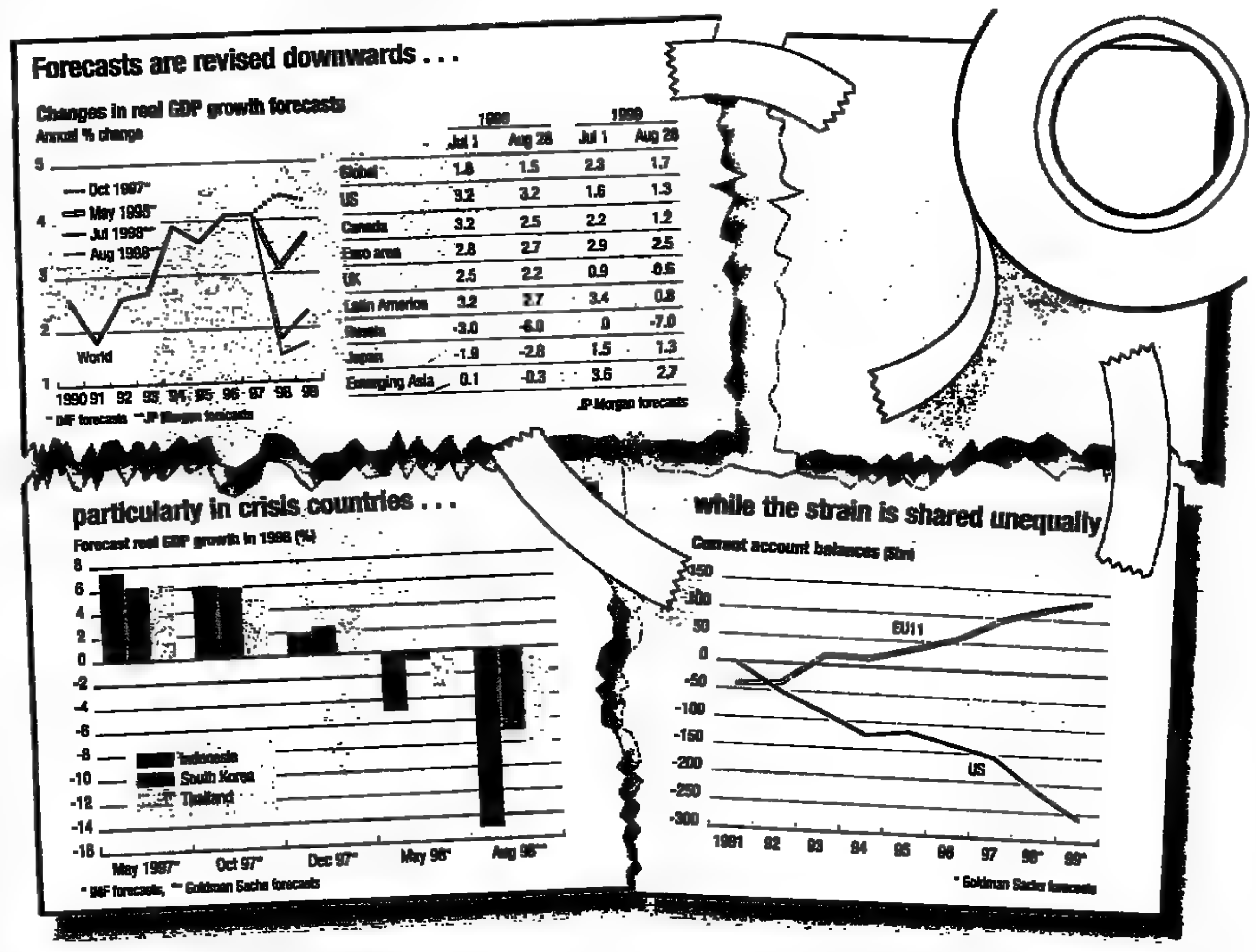
Nigeria should also be offered assistance in other ways, such as re-equipping the universities, starved of resources for more than a decade, and strengthening the civil service by providing training in Nigeria or abroad. Technical assistance should be made available for the forthcoming state and national elections.

But for all the encouraging developments, Nigeria's foreign creditors are still awaiting firm evidence that would justify a sympathetic response to Gen Abubakar's appeal yesterday for relief on Nigeria's external debt. This has climbed from $9bn to $34bn since 1980, and is now impossible to service. In the past, rescheduling left Nigeria a net exporter of capital, a situation incompatible with recovery.

Today, with the oil price so low, Nigeria's predicament becomes more serious by the day. It needs help, but on appropriate conditions. Gen Abubakar can demonstrate his commitment to economic reform by making the first essential move towards a renewed agreement with the International Monetary Fund: he must abolish the dual exchange rate system which has benefited only Gen Abacha and his cronies. In return, the creditors should encourage further steps down the reform path by coming up with fresh proposals to ease the debt burden.

# Averting the worst

**Martin Wolf** considers how the problems sweeping through emerging markets might affect western economies and asks what the west can do to compensate




| | 1998 Jul 1 | 1998 Aug 28 | 1999 Jul 1 | 1999 Aug 28 |
|---|---|---|---|---|
| Global | 1.8 | 1.5 | 2.3 | 1.7 |
| US | 3.2 | 3.2 | 1.6 | 1.3 |
| Canada | 3.2 | 2.5 | 2.2 | 1.2 |
| Euro area | 2.8 | 2.7 | 2.9 | 2.5 |
| UK | 2.5 | 2.2 | 0.9 | 0.5 |
| Latin America | 3.2 | 2.7 | 3.4 | 0.8 |
| Russia | -3.0 | -6.0 | 0 | -7.0 |
| Japan | -1.9 | -2.8 | 1.5 | 1.3 |
| Emerging Asia | 0.1 | -0.3 | 3.6 | 2.7 |

Anyone with a sense of history and a scintilla of imagination ought to be pretty worried by now. Not since the immediate post-war years have western leaders faced such a wide range of challenges. And not since the 1930s has a financial crisis (as opposed to one to the real economy) appeared to pose such a threat to the world as a whole.

Tony Blair, current chairman of the Group of Seven leading industrial countries, has summoned a meeting of G7 officials this coming weekend. Its chief purpose is to consider Russia. This is, indeed, a priority, since that vast country's looming collapse into hyperinflation, slump and political chaos is painfully reminiscent of Germany's Weimar republic. Worryingly, there may be little the G7 can do to halt the Russian slide.

Worse still, trouble comes not as single spies, but as batallions. A deepening recession is gripping one third of the world economy (measured at market prices). Japan, in particular, is mired in slump and political stalemate. Meanwhile, the president of the US is in danger of impeachment while the collective leadership of the European Union, the only other economic superpower, appears about as far-seeing as a parish council.

Yet however unrealistic it may now be to expect purposive action from western leadership, it must still be right to hope. So what then are the chief challenges now confronting the G7? The answer is that there is one that over-rides all others: to ensure that the contractionary forces at work in the world economy do not turn into a global depression.

The consensus is that this is not going to happen. True, prospects in emerging markets and Japan seem dire (see table). But J P Morgan (*Global Data Watch August 28 1998*) forecasts 3.2 per cent growth for the US this year, though this is followed by a sharp slowdown, to 1.3 per cent in 1999. As for the Euro zone, so long a wallflower, it is now the belle of the ball. Growth is expected to reach 2.7 per cent this year and 2.5 per cent in 1999.

The overall picture then is not catastrophic, although is is dismal, particularly in developing countries. These countries account for well over half of world output (at market prices). Provided they continue to expand and also remain open to world trade, struggling emerging countries should be able, in time, to trade their way out of the crisis, despite being increasingly cut off from global capital markets.

Yet if anything has been demonstrated over the past 15 months, it is how unpredictably devastating financial crises can turn out to be. Just compare the latest forecasts from Goldman Sachs of 1998 growth of gross domestic product for Indonesia, South Korea and Thailand with those produced by the International Monetary Fund in its World Economic Outlook, last October. The level of Indonesia's GDP this year is expected to be more than 20 per cent lower than was forecast a year ago. For South Korea and Thailand the difference is as big as 13 per cent.

Such huge downward revisions will certainly not occur in the big developed economies. But it is perfectly possible for the outcome to be far worse than is now expected. How much worse? Standard & Poor's DRI analysed the question in an intriguing report produced in July (*Asian Depression – World Recession: a Special Study on the Implications of a Worst-Case Scenario in Japan and Asia*).

Its "worst case" includes the following assumptions, all of them apparently plausible:

- failure of several large Japanese financial institutions;
- further collapse in the Tokyo stock market;
- a fall in the yen to 200 to the US dollar;
- devaluation of 40 per cent by China and Hong Kong;
- further devaluations in the rest of Asia;
- default by Indonesia on its foreign debt;
- and big devaluations in Latin America, particularly by Brazil.

All this would lead to a fall in the oil price to $9; a bigger flight to quality, further reducing bond yields in principal industrial countries; and considerable damage to western banks.

Under this worst case, the US would slide into recession next year, with GDP contracting 0.5 per cent, before recovering to 1.3 per cent growth in 2000. US export volumes would shrink 2.4 per cent in 1999, while the current account deficit would reach some 3 per cent of GDP, compared with 2 per cent in 1997. Most important of all, unemployment would rise towards 7 per cent in 2000.

This would still be no more than a modest recession at the end of a long upswing. But it would mean that the US would be entering its presidential election campaign in 2000 with an enfeebled presidency, rising unemployment and an expanding current account deficit. An outbreak of populist protectionism would appear certain. If Al Gore were discredited by his link with Bill Clinton, the Democratic candidate might turn out to be the protectionist Richard Gephardt, the house minority leader.

Furthermore, there is one respect in which even this study offered something well short of a worst case. It suggests that turmoil in Asia could wreck confidence in the US stock market, but that this would mean a plunge of only 25 per cent from the peak level. Since the S&P composite index was down 18 per cent on Monday, before Tuesday's rally, this hardly looks like a "worst case" scenario. The plunge could be bigger than that.

The impact of such a plunge on private spending could be dire. An intriguing look at US prospects in the light of UK household savings behaviour in the late 1980s is offered in a recent study from London-based Warburg Dillon Read (*Global Economic Perspectives August 27 1998*). In the UK housing bubble in the late 1980s, the savings rate halved. It then jumped back again, when prices collapsed. In the US, the household savings rate has fallen from 8½ per cent of disposable income in 1984 to 6 per cent in 1992 and less than 1 per cent in the first half of 1998. In a bear market, this could be reversed, with devastating effects on consumer spending.

**Europe is in a better position to cope than the US. Unfortunately it is unlikely to try**

With the household sector struggling to restore its balance sheets and the contractionary impact of slumps abroad, including in Latin America, monetary policy could prove ineffective. While Robert Rubin at the US Treasury would be aware of the need to accept a sharp deterioration in the fiscal position, this might not be acceptable to the Republican-dominated congress.

The US might then be trying to export its nascent recession into a world economy with only one potential importer – Europe. Fortunately, the latter is in a better position to cope than the US. Unfortunately, it is most unlikely to try.

Europe has more unused capacity; its exposure to trade with Asia is smaller; and it is less vulnerable to a big stock market adjustment. For such reasons, the worst case forecast by Standard & Poor's DRI for the big four economies (Germany, France, the UK and Italy) is quite modest: to 1.3 per cent growth next year and 1.5 per cent in 2000, before rising towards the trend rate in 2001.

Nevertheless, the launch of the euro would still be accompanied by a renewed rise in unemployment. Worse, fiscal deficits could jump above the Maastricht ceiling of 3 per cent of GDP in several important countries. The European Central Bank would then probably call for pro-cyclical fiscal tightening, while refusing compensatory monetary easing. This would be partly to establish its credibility in the early years and partly because it would be frightened of making concessions to what the club of central bankers views as incorrigibly irresponsible fiscal authorities.

The risk then is that the European economic slowdown would be viewed by both the monetary and fiscal authorities as either not particularly serious, or someone else's responsibility, or, more probably, both. While the European economy would avoid recession, this would eliminate the last important source of dynamism from the global economy. At the very least the global slowdown would be prolonged. At worst, it would generate a new round of disarray in emerging markets.

The vital step then is for the US and European monetary and fiscal authorities to realise fully what is at stake and work out in advance what they may need to do. They need to remember four points.

First, global economic growth looks set to run at between 1 and 2 per cent this year and next. This is the worst performance since the early 1990s.

Second, events may drive growth in the principal developed countries far below the current consensus. If the stock market plunge proves severe, the US could even suffer a fairly deep recession.

Third, Europe has a golden opportunity to become the prime source of demand for the world economy. With much of the adjustment burden now expected to fall on the US external account, and a risk of protectionism in that country, European policy-makers must be prepared to act. Since Europe is an economic, but not a political, superpower, this is also the sphere in which it should do so.

Fourth, there is absolutely no reason – bar folly – why the global economic slowdown should turn into a full-fledged slump. But Japan has, alas, demonstrated that a high degree of folly is possible even in a country renowned for competence.

The principal G7 policy-makers must remember that in a world of very low inflation, expansionary macro-economic policies carry a diminishing risk. And, above all, they must remind themselves and their publics that the surest way of turning the current emerging market disaster into a prolonged global calamity would be resort to short-sighted and ruinous protectionism.

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# OBSERVER

## Order of the boot

The resignation of Berti Vogts, Germany's national football coach, won't go down too well in Chancellor Helmut Kohl's dugout in Bonn.

Kohl and Vogts are friends. The chancellor persuaded the coach to hang on to his job after Germany lost to Bulgaria in the World Cup quarter finals in 1994, and was on hand to give Vogts a bear hug when the boys in white and black won the European championship in England two years later.

And as the squad warmed up for the World Cup at its training camp in southern France in June, up popped the 68-year-old chancellor to celebrate his 25th anniversary as party chairman. But Germany's tame exit from the World Cup – Vogts blamed the referee – followed by a couple of feeble friendlies have forced a change of coach after eight years.

As with his old pal, Kohl's biggest problems are in midfield. With three weeks to go to the general election, Social Democrat chancellor candidate Gerhard Schröder has moved in from the left flank to dictate play in the "new centre".

By contrast with the summer's public jollity, the response from the chancellor's circle to Vogts's resignation was a block worthy of tough-tackling defender Jürgen Kohler: "It's not a subject for the chancellor." Not any more, at least.

## Bill's buddy

What with Janet Reno's US Justice Department giving Bill Gates such a hard time, the man who's made a mega-fortune looking through Windows must be glad he still has fans.

In London yesterday to paint a picture of a world increasingly revolving around the internet, his first interrogator, an executive of telecoms outfit USA Global Link, went straight for the jugular. "On behalf of the human race, I would like to thank you for making the lives we live today possible." Gates didn't even look embarrassed.

## Blue ribbon

Greece's quarrelsome professors are throwing their mortar boards around the country's big state corporations.

Dimitris Papoulias, a soft-spoken Oxford-trained management expert, has resigned as chairman of state telecoms outfit OTE after months of friction with chief executive George Chryssolouris, an energetic information systems buff from MIT. It's not the best timing: OTE plans to sell another tranche of equity next month.

Analysts are wondering why Papoulias, who masterminded last year's successful partial flotation, couldn't be persuaded to stay on board for another few weeks. What tipped the scales, say company insiders, was a petty piece of one-upmanship. At last week's opening of the OTE stand at an international trade fair in northern Greece, Chryssolouris, not the chairman, cut the ribbon.

The front-runner to succeed Papoulias is Vassilis Rapanos, a capable economist who turned around state-controlled National Mortgage Bank a couple of years ago. Back in the black, NMB is merging with its parent, National Bank of Greece, leaving Rapanos free to look for another job.

But the chief executive, not the chairman, calls the shots at OTE. The other problem is that Rapanos is also a university professor. Investors won't relish more academic squabbles in the boardroom. Or maybe the professor will fight shy of a trip to the kindergarten.

## Room service

Some big mergers take years of planning and preparation. But according to Travelers Group chairman Sandy Weill, his outfit's merger with Citicorp happened so fast that there was hardly time to get consultants in.

Weill startled a few of the suits at a banking conference in Tokyo yesterday when he said the whole thing had started at another banking shindig when he had invited Citicorp boss John Reed to his hotel room for a chat. "John thought I was going to ask him to buy a table at a charity dinner," Weill cheerfully explained.

Instead, the deal was proposed – and was signed in weeks. The two men had, after all, known each other for years and agreeing even the most mega of mergers in a month was easy when "you have a very good idea". Given the recent tumble in the Travelers share price, investors may not entirely agree.

Still, Weill was in the right place to tell his tale: striking impromptu deals with old friends in hotel rooms, or indeed anywhere other than the boardroom, is familiar territory for Japanese bankers.

## Passive voice

Even the professionals are nonplussed by the behaviour of Japanese equities. Hitoshi Tonamura, head of Nomura Asset Management, yesterday admitted that markets were mysterious things "driven by unseen forces" – though he didn't say whether such forces in previous years had included stock purchases by the Japanese government.

"Index funds are probably the best buy," was his advice. That sounds like a sensible view – even if it does come as Nomura Asset Management is busy hiring a whole new team of active fund managers.

*The Financial Times*

## 100 years ago

**The March Of Civilisation In China**

The march of civilisation is proceeding at a fast pace in the Far East. The rough streets of the port of Wuhu, constructed for coolie foot traffic, are now echoing to the rattle of jinrickshaws. But they appear to have nothing to recommend them but their novelty, as, owing to the unevenness of the thoroughfares, the vehicles are simply instruments of torture. A very few bicycles have been introduced, good and light machines of American make, which, on Consular authority, are "imported by a missionary who, I suppose, makes no personal profit on the agency." This gentleman must surely be a new variety of American missionary.

## 50 years ago

**Opposition To Swiss Luxury Tax**

From Our Own Correspondent, Basle, Sept. 7. A petition signed by as many as 408,698 persons demanding the abolition of the 10 per cent luxury tax has been presented to the Swiss federal authorities.


FINANCIAL TIMES

WEDNESDAY SEPTEMBER 9 1998

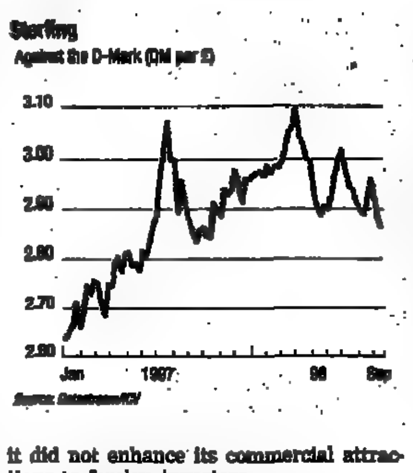

THE LEX COLUMN

# The chips are down

Memory chips are down and may well be out, at least for this generation of 64 megabit D-Rams. True, production holidays and the closure of the odd plant might do a little to ease the severe overcapacity in memory chips. But it is not enough. There are still at least a dozen large manufacturers contributing to the estimated 15 to 20 per cent oversupply. Even closing the Siemens plant in the UK will probably only take out 1 to 2 per cent of global output. The closure of the Fujitsu plant will do even less. Meanwhile prices have collapsed by more than 85 per cent in some 18 months. Nor is there comfort on the demand side: some forecasts assume a slowdown in the growth of personal computer sales for this year.

The damage could delay the production of the next generation of memory chip, even if manufacturers are pulling back from other ventures – as Acer did yesterday – to preserve funds. And new entrants such as the Chinese will need to try their hand at 64MB before they jump right in with the next 256MB chip. Does a delay matter? Certainly for the chip-makers, which need to regain some pricing power via sophisticated chips. Certainly, too, for PC manufacturers, which want to slim down the number of components. A delay could also slow down some internet companies counting on customers having machines with vastly expanded memories in order to download films and text.

But for Intel, which dominates microprocessing, and the software writers, it matters less. The current generation of memory chip is adequate even for Microsoft's most advanced programming.




### Crédit Foncier

The French government's continuing failure to find a buyer for Crédit Foncier holds some salutary lessons. The broad field interested in the state-controlled property bank has now evaporated following the breakdown of talks with sole bidder GMAC, General Motors' financial services arm, and its partner Bass of the US. The most obvious lesson is that using the privatisation process to shield companies from the rigours of the capital markets by installing "noyaux durs" is misguided. The preference for stakes being taken by French institutions may have helped make the deal politically acceptable. But it did not enhance its commercial attractions to foreign investors.

Since Crédit Foncier's purchaser will need to inject some FFr3bn ($500m) to meet capital adequacy levels on top of paying perhaps FFr2.5bn for the state's stake, the ability to restructure to make the deal pay is essential. After three years of state ownership, competitiveness needs to be sharply improved. Unduly onerous union demands for five-year job guarantees can hardly have reassured bidders on this score. Nor can the requirement for the bank be kept in one piece. Plans to recapitalise the institution deserve harsh treatment at the hands of EU competition bodies if the sorry tale of Crédit Lyonnais is not to be repeated.

### Sterling

Is it downhill for sterling from here? Quite possibly. The pound, whose fundamental value is probably DM2.60-DM2.70, has long been overpriced. But that did not seem to matter. A fast growing economy, rising interest rates and the strong dollar (which sterling tracks) kept it up. But all these props are falling. Moreover, in the last few days the currency has slipped below levels it dipped to earlier in the year before rebounding. That may encourage currency traders to believe momentum will drive the pound lower still.

The biggest prop to drop is the dollar. It has given up ground because the US economy is slowing and would be most exposed if the emerging market crisis shifts to Latin America. The eurozone, by contrast, will probably be the only large economic bloc to enjoy reasonably robust growth next year – its exposure to Russia notwithstanding.

The UK economy is also slowing. That has put an end to suggestions that the Bank of England will need to raise interest rates. But this is not the same as saying that the Bank's monetary policy committee will cut rates at its meeting today and tomorrow. Given that the inflation outlook is not yet benign, a wait-and-see approach would be more prudent. Moreover, a falling pound in itself does much the same job as a cut in rates. The Bank may be happy to see sterling falling but would probably not want a rapid cut in rates to trigger a rout.

### Williams

It is tough being piggy-in-the-middle. Williams' shares have been bouncing in a valuation no-man's land, as the market absorbs this new hybrid – part manufacturing, part security services, with a paints business still to shed. Meanwhile, yesterday's half-year numbers, though perfectly respectable, shed little light on how it is digesting Chubb. The £40m ($66m) savings will be on show at the year-end, but only then will the management lift the veil on juicy details such as where the savings come from and how it can improve the Chubb businesses.

Clearly, a corporate overhaul involves disruption. It showed through in the jump in working capital left over from consolidation of plants, leaving an unflattering picture at the cash-flow level.

But the big picture remains compelling. The company's focus on security is sensible, with double-digit earnings growth to be had on the service side. Longer term, the company will need to justify keeping that business together with manufacturing locks. For now, its brands stem from the products and help sell the services. But given the bias towards electronic gadgetry in security, the synergies are likely to fade.

Jitters over the punchy earnings the company will need in the second half to meet expectations have knocked the shares. But on a forecast price/earnings ratio of 13, they now look good value. There is additional support from a prospective 5 per cent yield.

# Russian central bank warns of hard currency shortage

## Government spent $9bn defending rouble in July and August

By John Thornhill in Moscow

Russia's central bank sold more than $9bn of hard currency to the country's banks in July and August in its attempts to defend the rouble, using up most of its hard currency reserves, Sergei Dubinin, the departing bank governor, said yesterday.

A government official said the central bank's gold and foreign currency reserves had fallen to $11bn – insufficient to slow the rouble's rapid fall. Yesterday, the official rouble exchange rate dropped from 18.90 to 20.82 to the dollar, although the street rate has fallen further.

Mr Dubinin said only the International Monetary Fund and other foreign lenders could help Russia rebuild its reserves. "At the present time, this is possible only with the assistance of the world community," he said.

He also appealed for the rapid formation of a credible new government to prevent Russia's situation from slipping further out of control. "Only a strong state and a strong government can adopt a tough monetary policy," he said.

President Boris Yeltsin spent yesterday in discussions over whether to risk a showdown with the Duma, the lower house of parliament, by nominating Victor Chernomyrdin for a third time as his prime ministerial candidate. Many parliamentary leaders have been urging the president to adopt an alternative compromise candidate, such as Yuri Luzhkov, Moscow's mayor, or Yevgeny Primakov, the acting foreign minister.

Gennady Zyuganov, leader of the Communist party, said the left-wing opposition would continue to oppose Mr Chernomyrdin and his "ultra-monetarist" economic programme. Mr Zyuganov named five alternative candidates, including Mr Luzhkov and Mr Primakov, who would probably be acceptable to the Duma.

If Mr Chernomyrdin is proposed and rejected by parliament for a third time then the Duma will be dissolved. "A dissolution would mean not just the dissolution of the Duma but the dissolution of the Russian Federation," Mr Zyuganov said.

Mr Luzhkov denied any ambition to become prime minister but he is backed by fellow regional leaders in the upper house of parliament.

In a recent interview, Konstantin Titov, the governor of Samara, said Mr Luzhkov would be able to command support across the political spectrum. "I think the time has come for politicians of intelligence who have considerable practical experience," he said. "Mr Luzhkov is a reasonable, normal, competent politician of the centre-right bloc."

Following a meeting yesterday, Mr Chernomyrdin announced a series of emergency measures to strengthen federal revenues. These included pushing the biggest oil and gas companies into paying their taxes in dollars, and cracking down on illegal tobacco and alcohol sales.

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# Drop in unemployment may not be enough to help Kohl

## Opposition says fall is based on job creation schemes and is not sustainable

By Ralph Atkins in Bonn

Latest figures showing German unemployment has fallen to its lowest level for almost two years offered little comfort to Chancellor Helmut Kohl in the lead-up to the September 27 general election.

The number out of work remained above 4m, and Gerhard Schröder, the opposition Social Democrats' candidate for chancellor, warned that the fall was not sustainable. He pointed to the high numbers on government job creation schemes, particularly in eastern Germany.

After seasonal adjustment, unemployment dropped by 24,000 to 4.197m last month, the lowest since December 1996. According to unadjusted federal labour office figures published yesterday – which receive more attention in Germany – the total fell by 39,000 to 4.095m.

Although the seasonally adjusted drop was lower than in the past few months, August's totals confirmed a clear downward trend and Mr Kohl said he was "absolutely sure" unemployment would fall below 4m in the next two months.

But the modest fall in August appeared unlikely to boost Mr Kohl's election chances. His alliance of Christian Democratic/Christian Social Union parties is trailing up to six percentage points behind the SPD. Mr Schröder said: "Before the 1994 election, the numbers also fell – and rose immediately afterwards ... Anyone who wants to see a sustainable pick-up in the labour market has to vote for a change of government."

Mr Kohl forecast average German unemployment this year would be lower than in 1997 and the government hopes strong economic growth of about 2.7 per cent annually in 1998 and 1999 will help reduce the jobless total further. Seasonally adjusted unemployment peaked at more than 4.5m last December.

But the fall in the jobless total has not been accompanied by a pick-up in employment, suggesting people are leaving the labour market, including through retirement. June employment figures released yesterday showed a 14,000 fall compared with the year before. At the same time those on job creation schemes rose to 262,372 in August – the highest since at least January 1997.

Meanwhile, Russia's economic crisis has raised fears of substantial job losses in Germany, although the government has warned against scaremongering and pointed out that Russia accounts for only 2 per cent of Germany's exports. The latest figures showed August's 24,000 fall in seasonally adjusted unemployment was split equally between west and east Germany. But there are stark differences. The east's 1.336m total was equivalent to 17.7 per cent of the workforce. The total of 2.861m in the west was equivalent to 9.2 per cent.

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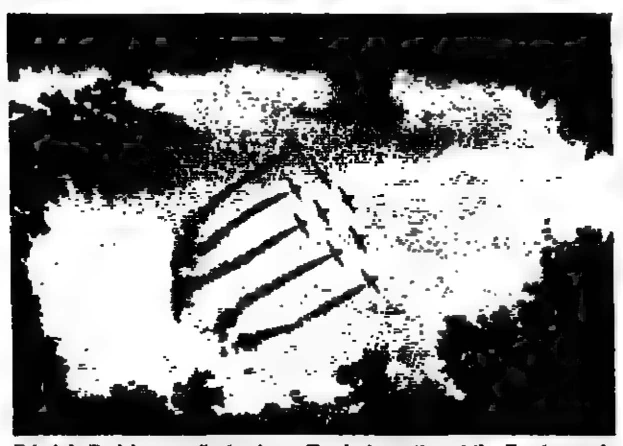

Britain's Red Arrows display team flies in formation at the Farnborough air show, where aircraft and engine builders yesterday announced large orders. Page 6; Private cash plan for tanker aircraft, Page 10



FT WEATHER GUIDE

**Europe today**

Southern Scandinavia will be windy with heavy rain. The north will have light rain but areas bordering the Baltic Sea will be dry with sunny spells. The Low Countries and Germany will be breezy with heavy rain. Rain in northern France will clear to leave sunny spells and showers. The Alps will have warm sunshine but showers will move into more western fringes later. The Iberian Peninsula will be sunny, although the far north will catch some showers. The Mediterranean will be sunny except for thunderstorms in the east.

**Five-day forecast**

Thundery showers will cross northern Europe over the next couple of days as it turns cooler. Scandinavia will have rain. Thunderstorms will die out across Greece and the Balkans but showers will move into southern France and northern Italy.


Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

| | | Maximum Celsius |
|---|---|---|
| Abu Dhabi | Fair | 40 |
| Accra | Cloudy | 29 |
| Algiers | Sun | 31 |
| Amsterdam | Rain | 21 |
| Athens | Fair | 31 |
| Atlanta | Fair | 25 |
| B. Aires | Fair | 18 |
| B.ham | Shower | 21 |
| Bangkok | Thunder | 33 |
| Barcelona | Sun | 30 |
| Beijing | Sun | 33 |
| Belfast | Shower | 19 |
| Belgrade | Thunder | 21 |
| Berlin | Rain | 20 |
| Bermuda | Thunder | 31 |
| Bogota | Cloudy | 20 |
| Bombay | Thunder | 31 |
| Brussels | Rain | 22 |
| Budapest | Fair | 23 |
| C.hagen | Rain | 20 |
| Cairo | Sun | 38 |
| Caracas | Cloudy | 32 |
| Cardiff | Thunder | [illegible] |
| Casablanca | Sun | 28 |
| Chicago | Sun | 26 |
| Cologne | Shower | 24 |
| Dakar | Cloudy | 31 |
| Dallas | Fair | 33 |
| Delhi | Fair | 29 |
| Dubai | Sun | 41 |
| Dublin | Thunder | 20 |
| Dubrovnik | Shower | 25 |
| Edinburgh | Shower | 18 |
| Faro | Sun | 28 |
| Frankfurt | Drzzl | 24 |
| Geneva | Fair | 27 |
| Gibraltar | Sun | 28 |
| Glasgow | Shower | 19 |
| Hamburg | Rain | 22 |
| Helsinki | Cloudy | 19 |
| Hong Kong | Shower | 31 |
| Honolulu | Fair | 32 |
| Istanbul | Fair | 28 |
| Jakarta | Cloudy | 33 |
| Jersey | Shower | 22 |
| Johannesburg | Fair | 21 |
| Karachi | Cloudy | 35 |
| Kuwait | Sun | 43 |
| L. Angeles | Sun | 25 |
| Las Palmas | Sun | 26 |
| Lima | Cloudy | 18 |
| Lisbon | Fair | 29 |
| London | Shower | 20 |
| Lux.bourg | Rain | 21 |
| Lyon | Fair | 28 |
| Madeira | Fair | 27 |
| Madrid | Sun | 33 |
| Majorca | Sun | 29 |
| Malta | Shower | 29 |
| Manchester | [illegible] | 21 |
| Manila | Thunder | 30 |
| Melbourne | Cloudy | 16 |
| Mexico City | Cloudy | 27 |
| Miami | Shower | 32 |
| Milan | Sun | 29 |
| Montreal | Fair | 17 |
| Moscow | Fair | 20 |
| Munich | Shower | 25 |
| Nairobi | Fair | 26 |
| Naples | Fair | 29 |
| Nassau | Cloudy | 33 |
| New York | Shower | 22 |
| Nice | Sun | 28 |
| Nicosia | Sun | 33 |
| Oslo | Rain | 16 |
| Paris | Shower | 26 |
| Perth | Fair | 22 |
| Prague | Fair | 25 |
| Rangoon | Cloudy | 31 |
| Reykjavik | Fair | 11 |
| Rio | Fair | 21 |
| Rome | Sun | 28 |
| S. Fsco | Sun | 25 |
| Seoul | Fair | 30 |
| Singapore | Cloudy | 32 |
| Stockholm | Fair | 20 |
| Strasbourg | Shower | 26 |
| Sydney | Shower | 20 |
| Tangier | Sun | 29 |
| Tel Aviv | Sun | 35 |
| Tokyo | Fair | 27 |
| Toronto | Fair | 17 |
| Vancouver | Cloudy | 19 |
| Venice | Sun | 27 |
| Vienna | Fair | 23 |
| Warsaw | Fair | 23 |
| Washington | Cloudy | 23 |
| Wellington | Fair | 12 |
| Winnipeg | Fair | 26 |
| Zurich | Fair | 24 |

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FINANCIAL TIMES
# COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998
WEDNESDAY SEPTEMBER 9 1998
Week 37



## INSIDE

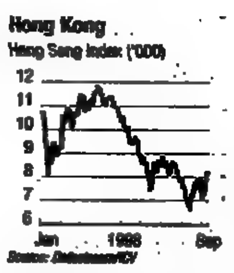
### GM and Ford prepare IPOs of components subsidiaries

General Motors and Ford, the US carmakers, are preparing for initial public offerings of their components subsidiaries Delphi and Visteon. GM expects to list 15-20 per cent of Delphi by March. Although Ford has declined to comment, an IPO of Visteon seems likely after Ford reorganised its component activities. Page 23

### OTE boss quits ahead of equity sale

Dimitris Papoulias, chairman of OTE, Greece's public telecoms operator, has stepped down amid reports of a clash with the chief executive over the sale of a 15 per cent equity stake to domestic and foreign investors. Page 20

### Hang Seng up on stability measures



Source: Datastream/ICV

Hong Kong saluted the government's technical measures to restore stability to its turbulent markets with a 7.9 per cent surge on Monday. The measures were helped by outside factors. Malaysia's imposition of capital controls last week unsettled some speculators in Hong Kong, prompting them to cover positions and beat a hasty retreat. Shares stayed firm yesterday. Page 40

### Romania nears land agreement

The Romanian government hopes soon to agree a new formula for restitution of agricultural land. Problems from previous legislation on the return of land have held up investment in agriculture, one of the least developed sectors. Page 30

### Japan oil sector struggles with debt

Failed market reforms have laid bare Japan's oil industry problems. The sector's bad debts have swelled to an estimated Y5,000bn ($37.9bn). Years of mismanagement need to be addressed if the problem is to be resolved. Page 22

### Banks 'lack strategy on internet'

Banks around the world are rushing to invest in the internet, but many have no idea how to make money from it or know which of their customers want it, a survey has found. Page 20

### Crackdown on settlement under fire

The crackdown in Hong Kong on delays in share settlement has come under fire from industry practitioners. Previously a blind eye was turned to late delivery. Page 28

### US pig producers plan expansion

US pig producers are attacking Denmark's dominance as the world's leading pig meat exporters. The National Pork Producers' Council in Iowa intends to pursue "an aggressive, long-term programme to become the world's largest pork exporter". Page 30

## COMPANIES IN THIS ISSUE



CROSSWORD, Page 30

## MARKET STATISTICS



# US financial groups rally on hope of cut in rates

## Stocks regain some lost ground

By Richard Waters in New York

The battered share prices of some of the biggest US financial institutions finally staged a rally yesterday, on hopes that the Federal Reserve may decide to cut interest rates before the end of the year.

After taking a beating in recent sessions on fears that the US was sliding into recession, banks and other financial institutions remained among the worst hit from the more cautious mood that has swept over Wall Street.

Yesterday's bounce also brought a degree of relief to shareholders in Travelers and Citicorp, whose merger has tumbled in value since it was announced in April. The all-stock deal, which originally valued Citicorp at $82.5bn, has now fallen to less than $50bn amid the stock market rout, even after the brief rally.

Comments made at the end of last week by Alan Greenspan, chairman of the Federal Reserve, were taken by Wall Street as a hint that US interest rates would eventually be cut, reducing the risk of a recession and, with it, the danger that banks' earnings would be hurt.

The move pushed Travelers' shares up more than 13 per cent in early New York trading yesterday, while Citicorp stock jumped 10 per cent. Both later fell back, and by early afternoon Travelers was trading at $41⅞, up $2 11/16, while Citicorp was at $97⅞, up $5 1/16.

Earlier, in comments made at a conference in Tokyo, Sandy Weill, Travelers chairman, said that "this might not be an inappropriate time for the US to consider a rate cut" – a move that would ease the pressure on ailing Asian currencies.

Although Citicorp, with its heavy dependence on profits earned in emerging markets, could suffer more than most from the turmoil in international financial markets, the fallout from recent events has been felt widely in the US financial sector.

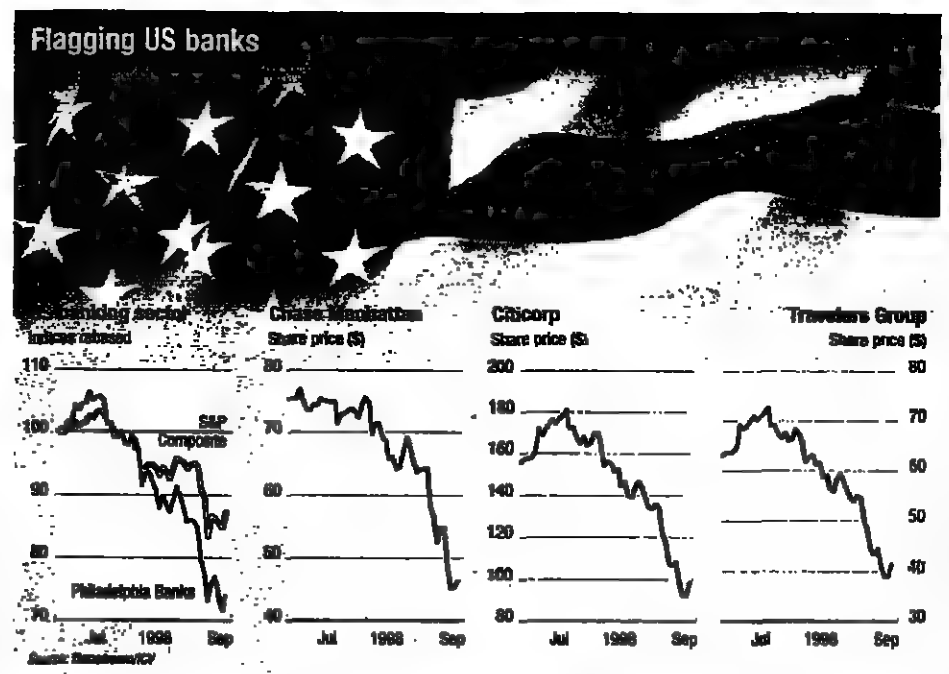
Shares in Chase Manhattan, the country's biggest bank, are still 40 per cent below the peak hit earlier this summer, despite a rise of $1 13/16 yesterday morning to $46 1/16, while Bankers Trust, whose earnings are heavily dependent on the financial markets, are down nearly 50 per cent.

Many US domestic banks, whose earnings are tied to the health of their regional economies, have also been dragged down by the wave of concern about bank earnings.

Michael Mayo, bank analyst at CSFB, said yesterday that a recession in the US next year would make it difficult for these banks to hit their earnings projections. He added that other sectors of the economy would also be hit hard, a consideration that was not reflected in the stock prices of highly cyclical sectors.

"On a relative basis, regional bank stocks could be a good place to hide," Mr Mayo said.

Bonds, Page 28
World stock markets, Page 40



Source: Datastream/ICV

BOARD RESIGNS AS SWISS TESTING GROUP WARNS OF FULL-YEAR LOSS

# SGS shares down 20% after profits plummet

By William Hall in Zurich

Shares in Société Générale de Surveillance, the world's biggest inspection and testing company, fell 20 per cent yesterday following the Swiss group's announcement late on Monday of a 91 per cent drop in first-half net income, to SFr10.3m ($7.27m).

Mrs Elisabeth Salina Amorini, 43, whose grandfather Jacques Salmanowitz ran SGS for nearly 50 years, is to step down after nearly a decade as chairman, and the board of directors – which includes Sir John Craven, chairman of Lonrho, and Peter Spira, a former vice-chairman of S. G. Warburg – have also resigned.

SGS, which once traded at a substantial premium to the Swiss stock market, has been under pressure for more than a year following the loss of two important inspections and testing contracts for the governments of Pakistan and Indonesia, and the revelation that one of its subsidiaries had been named in a Pakistani corruption scandal.

Antony Czura, 40, who was recalled from the US five weeks ago to take over as chief executive, said he planned to have a restructuring plan in place by the end of the year. Goldman Sachs, the US investment bank, has been retained as a financial adviser and is understood to be involved in the search for a new chairman from outside the group.

The shares had fallen more than 40 per cent this year before Monday's publication of the first-half results, which included a warning that SGS expected to suffer a substantial net loss this year.

SGS earned SFr228m in 1997 and analysts had been expecting it to earn close to SFr200m this year. The shares closed SFr312 lower at SFr1,267 yesterday.

Analysts were particularly surprised by the SFr111m drop in the operating profits of its inspection and testing services for governments and international institutions, to SFr23.2m. The company had previously refused to disclose the contribution from this sector, which in the 1997 first half accounted for 74 per cent of SGS operating profits and 23 per cent of revenues.

Simon Marshall-Lockyer, of BT Alex Brown International in Zurich, said analysts had always assumed the government testing business was high-margin, but no one had believed it contributed so much to profits. He said the collapse in the profits of this side of the operation underlined the low quality and volatile nature of SGS's earnings.

The profit contributions of the group's two other big businesses – natural resource services and insurance loss adjusting – also fell sharply. Net cash has fallen from SFr337m to SFr102m and SGS is forecasting a substantial net loss for the year, which could result in a dividend cut.

Execs face the music, Page 18

# Crédit Foncier bids are shelved

By David Owen in Paris

The French government yesterday broke off talks with the last bidder for Crédit Foncier de France, the Paris-based specialist property lender, and said it would restructure the bank before trying to sell it again.

The government said weekend talks with the US-led GMAC-Bass consortium had shown it was impossible to reach a "balanced" agreement. The proposals put forward by the bidders over jobs had appeared "insufficiently precise", in spite of progress during the summer.

Finance ministry officials indicated, in particular, that a late request by the consortium to remove FFr200bn in bonds from the bank's balance-sheet had proved unacceptable.

They emphasised that their decision should not be seen as an anti-American move and that GMAC's property expertise had been viewed as a positive factor. They said there was no link between the Crédit Foncier move and approval of Coca-Cola's planned FFr5bn purchase of Orangina, the fizzy French orange drink, from Pernod Ricard.

The government is expected to decide whether to permit that deal this month.

The rejected plan would have seen GMAC, a financial arm of General Motors, and Bass of the US become Crédit Foncier's dominant shareholders.

Yesterday's move was welcomed by Crédit Foncier unions and management. Unions last month told the government they rejected the consortium's plans, partly on account of what they saw as the lack of guarantees on jobs.

The government said a financial restructuring of Crédit Foncier would now precede its disposal.

Lex, Page 16

# Siemens calls off sale of PC operation to Acer

By Graham Bowley in Frankfurt

Siemens, Germany's largest electronics group, yesterday called off the sale of its personal computer manufacturing business to Acer of Taiwan.

Siemens Nixdorf Information Systems said the groups had failed to reach agreement on financial terms after the Asian crisis led to a worsening of Acer's position.

The move reverses an agreement reached in April under which Acer, one of the world's largest PC manufacturers, would have taken over SNI's PC manufacturing operations in Augsburg, Germany. Acer was to have built PCs for SNI under contract at Augsburg, where about 4m PCs are produced a year.

The sale agreement, which would have marked the withdrawal from PC manufacturing of Europe's only full-range computer group, coincided with restructuring at Siemens - which the German group said yesterday would be unaffected.

Siemens has reintegrated the bulk of SNI's remaining operations, including PC marketing and sales, into the group and merged it with its communications business.

It said the PC manufacturing operations would be merged into this new information and communications division, which accounts for more than 40 per cent of Siemens' total business. A new company, PCS, would be formed to develop and produce PCs.

The agreement had been "terminated by mutual consent", Siemens said. The Asian crisis meant Acer was forced to rethink its expansion plans – especially in semiconductors, which have been hit by a steep fall in world chip prices.

Last month Siemens closed its own semiconductor plant in the north of England and has warned that other closures could follow because of a sharp drop in profitability.

The German group said it was not in talks with other companies to replace Acer but did not rule out future links: "We want to remain open to alliances. But there is no immediate need to act."

Analysts said the move reflected problems at Acer rather than at Siemens.

Lex, Page 16

BARRY RILEY

# High-flyer hits turbulence

The US dollar could only go higher, according to the consensus earlier this year. Indeed, its strength threatened to create a new Asian upset involving a Chinese devaluation.

When Robert Rubin, US Treasury secretary, ordered the sale of dollars to support the yen on June 17 the rate was 143, already down from 146 because the intervention had been rumoured. The timing was good, and the dollar fell below Y136, but the impact was only temporary and the rate rose to 147 on August 11.

Now, though, the dollar has decisively plummeted, dropping Y12 in eight trading days, taking the pressure off various pegged currencies, including China's.

Whatever has happened to the dollar's safe-haven credentials in only three months? The D-Mark, supposedly in line to become a victim of the Russian troubles, has appreciated by 5 per cent against the dollar in two weeks. The bolt-hole merits of the Swiss franc have once more become appreciated, and it has risen 9 per cent in two months.

Safe-haven flows out of Asia over the past year have masked the underlying weakness of the US currency. Now, however, the merest hint from Alan Greenspan, Federal Reserve chairman, of a cut in US short-term rates has accelerated the dollar's slide. The stock markets, in contrast, have seized on the prospect of lower rates with desperate enthusiasm; but the Fed may not actually have much downside flexibility.

Should we take note of neighbouring Canada, where rates rose 1 per cent on August 27? This is a different situation, and yet it is important to bear in mind that more than half of US exports go to weak currency areas in Asia, Latin America and Canada. The US balance of payments deficit is already running at an annualised $200bn and is rising fast. This has to be paid for.

One former important source of financing – foreign central bank holdings of Treasury securities – has already gone into reverse, reflecting the Asian crisis, with net sales of $80bn over the past 12 months. No matter – private sector flows from Asia into dollar bonds have doubtless meanwhile been strong. But the big foreign purchases of US equities ($66bn in 1997, and at a still higher annual rate in the first half of 1998) now look suspect too after the stock market's correction.

Temporary factors have exaggerated the dollar's recent weakness. Hedge funds beset by margin calls have been hastily unwinding their yen-carry trades, involving the purchase of yen and the corresponding sale of dollar assets; and Japanese banks may be engaged in their half-yearly exercise of repatriating foreign assets to shore up their end-September balance sheets, though it is hard to see why they should bother to pretend.

Meanwhile, Europe, which is running a comfortable balance of payments surplus, may have to adjust its plans. A moderately weak euro would have enabled the European Central Bank to edge interest rates higher and address some of the potential problems of the overheating "bubble" states such as Ireland and the Netherlands – how convenient.

A strong euro, however, might require lower rates (*below* today's 3.3 per cent for D-Marks) to keep the German and French economies growing, posing a threat to the regional stability of Euroland.

In the short term the dollar could rally. It is impossible, however, to imagine a longer-term solution that does not involve a sizeable interest rate premium to encourage foreigners (and US multinationals) to retain dollar liquidity. There will also have to be a rise in US savings, and a corresponding fall in consumption, to reduce the deficit.

You might describe that as a recession or, in Greenspanish, an inability to "remain an oasis of prosperity" in a distressed world.

**GERMANY** CONGLOMERATE'S PRINTING MACHINERY DIVISION RETURNS TO PROFIT AFTER SEVEN YEARS

# Shares rise 12% as MAN results surprise

By Frederick Stüdemann in Berlin

MAN, the diversified German engineering group, surprised the market yesterday with full-year results well ahead of expectations and news that its print machinery division achieved its first profit in seven years.

With operating profits up 64 per cent to DM809m ($469m) and sales 16 per cent ahead at DM24.8bn, the shares – long seen as a dowdy stock by investors who disliked its sprawling portfolio or conservative outlook – advanced DM57, or 12 per cent, to close at DM539.

After-tax profits rose 75 per cent to DM512m, and the proposed dividend is increased DM2 to DM16.

MAN, whose products include trucks, chemical reactors and steel mill plant, rocket components and open cast mining technology, said business was driven by the economic upturn in Germany and western Europe. It said this more than compensated for any stagnation in emerging markets.

Analysts were impressed by MAN Roland, the printing machine division, which was back in the black with a DM22m profit after last year's DM115m pre-tax losses.

The company said the long-promised turnround at MAN Roland, which had been rumoured as a candidate for disposal, was due to a rigorous cutting of costs and jobs, as well as a boost in orders, which rose 33 per cent to DM8bn.

Olaf Tölke, at Merrill Lynch in Frankfurt, said the good news from MAN Roland was only half the story as the benefits of many of the orders for big newspaper printing machines had yet to appear. These take longer to make, but cost more than the division's other main product line – smaller sheet-feed presses used, for instance, to produce brochures and glossy magazines.

MAN Nutzfahrzeuge, the flagship truckmaking division, saw a 133 per cent rise in pre-tax earnings to DM338m and was the biggest contributor to group profits. The unit had 25 per cent market share in Germany, where orders rose 19 per cent, and a 13.5 per cent share in western Europe overall, MAN said.

Some analysts warned of poorer margins following price cuts by competitors such as Volvo of Sweden. But Gideon Franklin, at Morgan Stanley Dean Witter in London, said full order books – up 6 per cent at DM20bn – created a background for continued growth and high-quality earnings.

MAN said it expected growth from western Europe and North America but was cautious about Asia and Russia, where business has slowed. In 1997-98 new orders in south-east Asia and Japan nearly halved to DM700m, or 2.8 per cent of the group total, which increased 17 per cent to DM25bn.

In the Commonwealth of Independent States new orders fell from 1.1 per cent to 0.5 per cent of the group total.

World Stocks page 40

# Competition warms up in battle for PolyGram films

By Alan Rawsthorn

EMI, the UK music group, faces growing competition in the bidding for PolyGram Filmed Entertainment (PFE), Europe's biggest film company, as Carlton, Canal Plus and Artisan Entertainment step up their efforts to table rival bids.

Sir Colin Southgate, EMI chairman, has told colleagues he is confident his company is the front runner in the auction of PFE, which was put up for sale this summer following the $10.4bn bid for the PolyGram group by Seagram, the Canadian entertainment concern.

However, some of the dozen other prospective bidders, which seemed to become more cautious about the PFE deal after making non-binding preliminary offers last month, are now accelerating preparations to lodge final bids before the deadline of 18 September.

Carlton, the UK media group, appeared to be having doubts about the deal last month when senior executives expressed concern to analysts about Seagram's $750m price estimate. Yet Carlton's interest appears to have revived.

Artisan Entertainment, the US film and video distributor, also plans to bid.

Canal Plus, the French pay-TV concern which was one of the first companies to indicate interest in buying PFE, has indicated that it hopes to make a final bid.

Even Kirk Kerkorian, the veteran US corporate raider whose last-minute offer for PFE was regarded sceptically because of his plans to sell MGM/UA, his Hollywood film studio, is believed to be continuing with due diligence.

Despite the threat of competition, EMI is continuing with its final bid and has held discussions with PFE's management and informal talks with Alain Lévy, PolyGram's former president.


Sir Colin Southgate: confident of success

However, Sir Colin, who was in the past critical of PolyGram's diversification into films, may face a battle to persuade EMI's non-executive directors, who supported his past strategy of turning EMI into a specialist music group, to endorse a final offer for PFE at next week's board meeting.

# Ecia stock hit by midway downturn

By David Owen in Paris

Shares of Ecia, the components group majority-owned by Peugeot-Citroën, the French carmaker, fell sharply yesterday after it reported a downturn in profits for the first half and warned that 1998 operating income was "not expected to be higher than that of last year".

The shares closed down FFr65, or 5.6 per cent, at FFr1,090, against a near 3 per cent improvement for the benchmark CAC 40 index.

The figures, which put net attributable first-half income at FFr202.4m ($35m), down from a pro-forma FFr225.9m in 1997, included for the first time the accounts of Ecia and Bertrand Faure, the car seat, carpet and interior products specialist, taken over through an agreed FFr7.3bn bid late last year.

Sales climbed 12.2 per cent to FFr13.3bn on the back of the increase in European vehicle production. Operating income rose from a pro-forma FFr761.7m to FFr857.9m.

The group said it incurred an increase in tax expense and about FFr100m of restructuring provisions following the Bertrand Faure takeover.

This, together with the amortisation of goodwill totalling FFr136.7m, helped account for the downturn at the net level. Net income per share was FFr44.20, down from FFr49.90.

In the second half, the company said, the outlook for business remained sustainable. However, volume would compensate only partly for the effect of strong pressure on prices and the start-up costs for new industrial sites outside France.

The tie-up creates Europe's fifth biggest car components group, to be known as Faurecia.

# Executives at SGS face the music

By William Hall in Zurich

Antony Czura, 40, the chief executive of Société Générale de Surveillance, and Paul Lilley, 40, SGS's finance director, were pitched into the deep end yesterday as they tried to explain to a hastily convened press conference in Zurich why the profits of the world's biggest inspection and testing company had collapsed.

SGS, founded in 1878, traditionally holds its press conferences in French and in Geneva, and most of the talking is normally done by Elisabeth Salina Amorini, SGS chairman. But Mrs Salina, 43, whose grandfather Jacques Salmanowitz ran SGS for nearly 50 years, has handed in her notice following the 91 per cent drop in first-half profits to SFr10m ($7.1m).

So it was left to Mr Czura, who took over as chief executive five weeks ago, and Mr Lilley, who joined the group in January 1997, to try and explain in English, to sceptical German-speaking journalists, why one of Switzerland's blue-chip stocks had lost its way.

Their presentation was not helped by the absence of Mrs Salina, a leading shareholder who has presided over the company for nearly a decade, and representatives of the other shareholders who appear to have demanded a clean sweep of the boardroom with all the directors tendering their resignation ahead of an extraordinary general meeting on October 13.

> **Shareholders are looking for a new slate of directors in order to 'give all necessary support to the company, its management and its newly appointed chief executive officer'**

Mrs Salina came to power in 1989 after a revolt by the family shareholders ousted the management led by Patrick Rich, a professional manager who had headed Alcan's European business. She now seems to have suffered a similar fate as SGS's big shareholders, who control 45.9 per cent of the shares, became increasingly unhappy about the massive underperformance of SGS's share price culminating in the warning the company expected to make a "substantial net loss" for 1998.

The latest boardroom upheaval bears an uncanny resemblance to the last boardroom row at SGS. At that time SGS had an even more impressive board of director than it has today. But Fritz Leutwiler, a former president of the Swiss National Bank, and Philippe de Weck, a former chairman of UBS, were forced to step down and were replaced by a new group of finacially-skilled directors, including Sir John Craven, a former head of Morgan Grenfell, and Guy De Mole, senior partner of Pictet, Geneva's most prestigious bank.

These two bankers have announced that they will not stand for re-election and are leaving the board along with Peter Spira, a former vice chairman of S. G. Warburg, and Moritz Suter, chief executive of Crossair, Europe's biggest regional airline.

The shareholders are now looking for a new slate of directors in order to "give all necessary support to the company, its management and its newly appointed chief executive officer".

In the interim, Goldman Sachs has been hired to help protect the company from any unwelcome takeover approaches and also advise it on the possible sale of under-performing business, such as its loss adjusting operation, which just about broke even on revenues of SFr327m in the first half of 1998.

However, the biggest challenge for the company is to restore its credibility following the revelation that in the first half of last year its government inspection and testing business contributed 74 per cent of SGS profits and less than a quarter of its revenues.

Simon Marshall-Lockyer of BT Alex. Brown International in Zurich, said analysts had always assumed that it was a high-margin business, but no one ever dreamed they were as high as 35 per cent.

Mr Czura stressed that the collapse in earnings from this side of the business was mostly just because of the loss of the Indonesian and Pakistan inspection contracts last year. It was related to a whole series of problems in emerging markets and problems with payments.

He said that the company's shareholders remained "very solid" and that they will back the management and its unspecified restructuring plan which he hopes to be ready before the year end.

However, SGS's shares have more than halved since Mr Czura took command five weeks ago and yesterday's 20 per cent fall, to SFr1,266, is a reminder that the stock market has yet to be fully convinced that Mr Czura is right when he says "we feel we have got the situation under control".

## NEWS DIGEST

**PROPERTY**

### Drott in SKr3bn hostile bid for rival Näckebro

Drott, one of Sweden's largest property companies, last night launched a SKr3bn ($378m) hostile takeover bid for Näckebro, a rival real estate group which only last week paid SKr1.1bn to become Drott's largest shareholder. The move marked an apparent attempt by Drott, formerly a wholly-owned subsidiary of construction group Skanska, to seize the initiative after being surprised by Näckebro's acquisition of 44.6 per cent of its voting rights and 10.7 per cent of its equity. Näckebro had expressed a desire to merge the two companies to create a group with a combined portfolio of SKr21.5bn.

However, Mats Mared, Drott managing director, stressed he had held no talks with Näckebro. "It is up to the market to decide if [this] is a good offer," he said.

Custos, the Swedish investment company which last week sold a large stake in Drott to Näckebro but retains a seat on Drott's board, said it had not endorsed the bid. Drott insisted a cash offer to all Näckebro shareholders was "clearly the best alternative for the merger".

The company said it yesterday acquired a 10.3 per cent holding in Näckebro, paying SKr125 a share. All other shareholders would be offered SKr126 a share for their stakes, an 18.3 per cent premium to Näckebro's closing share price on Friday. **Greg McIvor, Stockholm**

**GERMANY**

### Cartel office in pay-TV block

The German cartel office office yesterday made the first move towards blocking plans by Kirch and CLT-Ufa, the country's two biggest broadcasting groups, to increase their stakes in Premiere, an analogue pay-TV channel. In an official caution, the first step towards a veto, the cartel office warned that such a move would create a monopoly in pay-TV and allow Kirch and CLT-Ufa, which is 40 per cent owned by the media group Bertelsmann, to co-ordinate their strategies in both pay-TV and free TV.

The two companies want to increase their stakes in Premiere to 50 per cent each through the purchase of 37.5 per cent currently held by Canal Plus of France. At present Kirch owns 25 per cent of Premiere while CLT-Ufa holds 37.5 per cent. The move to increase their stakes follows a European Commission veto earlier this year of a much bigger alliance with which Kirch and CLT-Ufa planned to push forward the development of digital pay-TV.

Yesterday's move by the cartel office, which is particularly concerned about the dominance of the two companies in the advertising-funded free TV sector and the stranglehold Kirch has over programme rights, raises the prospect of an outside investor being brought into Premiere. The cartel office will issue its final judgment on the case within the next two weeks.
**Frederick Stüdemann, Berlin**

**CAR RENTAL**

### Management buys Hoofddorp

A management team backed by UBS Capital, the private equity division of UBS, has paid Fl 600m ($308m) for the franchisee of Budget Rent a Car in the Benelux countries and Finland. Under the terms of the deal the team and UBS have acquired Hoofddorp, Netherlands-headquartered HCL, which controls the rental car operations, from the Dutch AIR Holdings group and several private investors. **John Griffiths**

**BELGIUM**

### Texaco, Elf in downstream link

Texaco of the US and France's Elf Aquitaine unit Elf Lubricants said yesterday their Belgian units are to set up a 50-50 joint venture for the production and European distribution of coolant for cars, industrial vehicles and industry. The European Commission has given its agreement and the venture should become operational in the fourth quarter. Financial details were not disclosed. **AFX News, Paris**

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**BROADCASTING** WRITE-OFFS HIT AUSTRALIAN GROUP

# Seven chief resigns as profits fall 77%

By Russell Baker in Sydney

Seven Network, the Australian television group, has announced the sudden resignation of Gary Rice as managing director and a 77.1 per cent slump in net profit to A$20.35m (US$12m) for the year to June 27.

Mr Rice resigned after three years with the network to "pursue other opportunities" and Seven is expected to name his replacement within a week.

The market reacted negatively to news of Mr Rice's departure – the latest in a spate of high-level resignations in Australia's media industry – marking the company's shares down 2.6 per cent to A$5.20.

In recent weeks Bob Muscat has retired as chief executive of the John Fairfax newspaper group to join PMP Communications and John Alexander was sacked as editor-in-chief of Fairfax's Sydney Morning Herald newspaper before becoming a magazine publisher at Kerry Packer's Publishing & Broadcasting (PBL).

A few months ago, Brian Powers, Mr Packer's right-hand man, left PBL to become chairman of Fairfax.

Seven, whose main shareholder is chairman Kerry Stokes, ranks second in market share behind the Nine Network group owned by PBL.

Seven's net profit was struck after abnormal write-offs totalling A$62m relating to its recently sold 24.9 per cent stake in Metro-Goldwyn-Mayer, the US film group, its investment in Australian sports channel provider Sports Vision (which is in liquidation), and other restructuring and redundancy costs.

The company's pre-tax profit excluding abnormals fell 9.4 per cent to A$129.7m mainly because of a sharply higher interest bill relating to its MGM investment.

Despite a softening in the television advertising market in the final quarter, Seven achieved a 5.7 per cent increase in sales to A$800.2m.

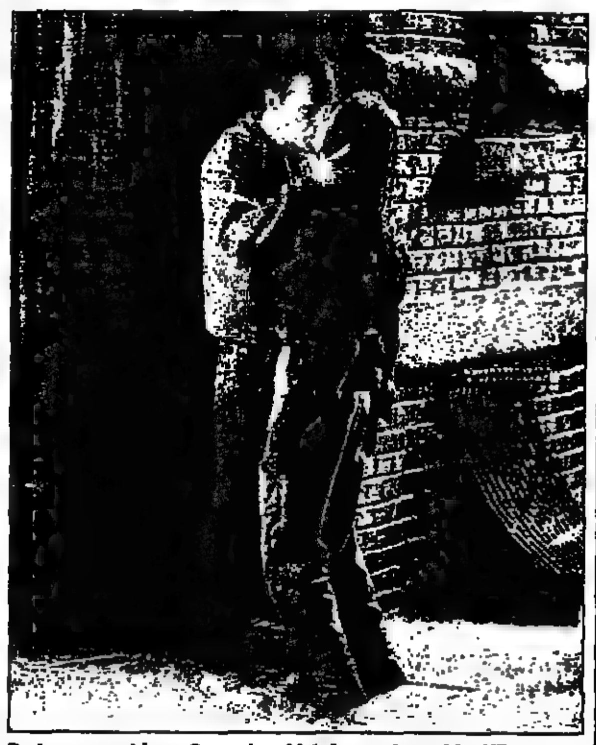
It said it had "undertaken an extensive review of its business" to try to reduce management costs by cutting out duplication in the television network and improve production efficiencies.

The company is confident that new programmes – including *Ally McBeal* – and some new Australian projects will drive improvements in performance.

"While planning for the coming introduction of digital television and meeting the competition of new technologies, the company is budgeting for growth in profitability in the coming 12 months while continuing to develop Australian programming which will drive the network's audience growth," Seven said.

Mr Rice said "my decision to leave Seven is driven by a desire to pursue other opportunities in my life.

"The past three years have seen Seven meet a number of challenges and succeed and I believe that today Seven is in good shape and well-placed for the future."



Performance driven: Seven has high hopes for quirky US comedy Ally McBeal, starring Calista Flockhart and Gil Belows Channel Four

# Banc One to extend card unit into Canada

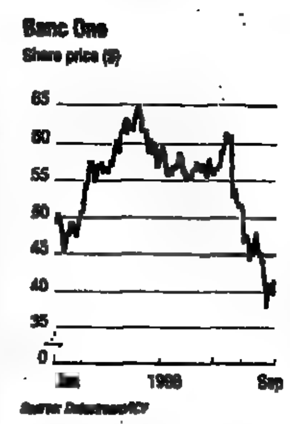
By Edward Alden in Toronto

Banc One, the second largest issuer of credit cards in the US, said yesterday it would begin issuing credit cards in Canada this year.

The move will be Banc One's first expansion of its credit-card business beyond the US. It will be the second big US credit card company to set up operations in Canada this year.

Canada's five largest banks currently control the vast majority of the C$20bn (US$13.2bn) credit card business, but have mostly avoided the aggressive direct-marketing campaigns of US credit-card suppliers.

The Canadian banks, however, are tiny players compared with the US giants. Once its pending US$22bn merger with First Chicago is complete, Banc One's credit-card business measured by outstanding balances will be about US$60bn, more than four times the size of the entire Canadian market.




MBNA America, the third largest credit card company in the US, began marketing in Canada late last year and has been flooding consumers with direct-marketing sales pitches and offerings through "affinity groups" such as teachers' and doctors' associations.

Rob Pearce, executive vice-president of electronic banking at the Bank of Montreal, said Banc One was "a highly-skilled, huge-scale player" and that it would pose serious competition. The move strengthened the case in favour of Canadian banks merging to meet the new competition, he said.

The Canadian credit card business has been growing slowly compared with that in the US, where the average consumer has three to five times the available credit due to aggressive marketing by the card companies.

Patrick Blewett, president of Banc One's credit-card arm, said the company would use the same sorts of marketing tactics it favours in the US to expand market share, including co-branding and affinity relationships.

Banc One will open an operations centre in Ottawa in December and expects to employ about 600 people in Ottawa and Toronto by 2003. It will offer Visa cards through an affiliated Canadian bank, First Chicago NBD Bank-Canada.

# ECI and TadTel reveal tie-up

By Avi Machlis in Jerusalem

ECI Telecom and Tadiran Telecommunications, the two leading Israeli telecoms equipment manufacturers, yesterday announced merger plans aimed at lifting ECI's presence on world markets.

The all-stock deal will create a company with market capitalisation of about $2.4bn and annual revenues of more than $1bn. At current share prices, the deal is worth about $363m. Yesterday, ECI shares on Nasdaq were up nearly 5 per cent to $27¾ by midday.

David Rubner, ECI chief executive, said acquiring TadTel's product line would "further enhance ECI Telecom's position as a leading supplier to the world's telecom service operators and business users". Exports account for about 95 per cent of ECI's total revenues, which reached $381m in the first half of 1998.

Both companies are expected to be streamlined.

Under the deal, Koor Industries, Israel's biggest holding company whose controlling shareholder is the Claridge Israel investment group, will see its current 16.8 per cent stake in ECI rise to more than 21 per cent on a fully diluted basis. It holds stakes in both companies.

Some analysts said Claridge gained most from the deal. "They have effectively swapped one of their assets for a larger stake in ECI, which is a top-notch company," said Keith Phillips, Israel analyst at Société Générale. "They have also shown they have enough influence to push ECI into doing something it may not have done on its own."

However, Mr Rubner said: "ECI does only what is good for ECI, what the management thinks is good for ECI and what is good for its shareholders."

ECI had repeatedly brushed off suggestions of a merger.

According to the agreement in principle signed yesterday, TadTel shareholders will exchange 1.79 of their shares for each ECI share. This reflects a premium of about 17.5 per cent based on an average share price of both companies over the past two months.

## NEWS DIGEST

**SOUTH KOREA**

### Hana and Boram Banks merge under pressure

Hana Bank and Boram Bank officially announced their merger yesterday – the first tie-up between healthy commercial banks in South Korea – and added that the merged bank would seek a strategic alliance with foreign financial institutions. The new bank, to be launched on January 4, will be the country's seventh largest commercial bank with combined assets of Won41,000bn ($30.5bn). In terms of paid-in capital, it will be second largest with Won1,370bn of capital.

The announcement came after nearly five months of negotiations under pressure from the government, which is committed to reforming the country's battered banking sector, saddled with more than Won100,000bn of bad loans.

In July, Commercial Bank and Hanil Bank, two of Korea's top six commercial banks, agreed to merge to create the country's largest commercial bank. The two undercapitalised banks were in effect forced to merge by the government, which threatened to close ailing companies unless they sought mergers or foreign capital injections. **BJ Lee, Seoul**

**CREDIT LYONNAIS**

### Axa discusses taking stake

Axa, the French insurer, said yesterday it was interested in taking a minority stake in Crédit Lyonnais, the state-controlled bank scheduled to be privatised after a costly rescue by the government. Reports in France suggested that Axa, along with Paribas, the French bank, and Allianz, the German insurer, were discussing the idea of taking a share of 15 to 25 per cent in Crédit Lyonnais in a first step towards privatisation.

There was no immediate response from Crédit Lyonnais or Paribas, while Allianz said it had no comment. However, Paribas has already confirmed it would be interested in taking a stake in Crédit Lyonnais, which is back in profit after near financial ruin in the early 1990s. Allianz, which recently took over AGF, the French insurer, has also said it would be interested in acquiring up to 10 per cent of Crédit Lyonnais. **Reuters, Paris**

**INDUSTRIAL GASES**

### Air Liquide rises 12%

Air Liquide, the French industrial gas group, yesterday reported a 12 per cent increase in interim net profit to FFr1.685bn on turnover up by 8 per cent to FFr19.98bn. Alain Joly, group head, said that with the effect of new contracts and facilities coming on stream, combined with the pursuit of higher productivity, Air Liquide hoped to achieve "double digit" results for the year, despite a more difficult economic environment in the second half of 1998. **David Buchan, Paris**

TELECOMMUNICATIONS DIMITRIS PAPOULIAS QUITS ABRUPTLY AHEAD OF EQUITY SALE

# OTE chairman resigns

By Kerin Hope in Athens

The chairman of Greece's public telecoms operator, OTE, has stepped down amid reports of a clash with the chief executive over the sale next month of a 15 per cent equity stake to domestic and foreign investors.

The communications ministry yesterday confirmed the resignation of Dimitris Papoulias, an Athens university management professor with close personal ties to Costas Simitis, the Socialist prime minister. His job will be offered to Vassilis Rapanos, the governor of the state-controlled National Mortgage Bank, ministry officials said.

Athens-based analysts voiced concern at the timing of Mr Papoulias's departure, only a few weeks before OTE launches international roadshows for the sale of a third equity tranche.

The government says it is committed to the disposal, in spite of a sharp fall in OTE's share price as a result of turmoil in emerging markets worldwide. But the operator said it had dropped plans to launch an 8 per cent rights issue at the same time.

National Bank of Greece, Credit Suisse First Boston and Salomon Smith Barney are joint global co-ordinators for the equity sale.

Mr Papoulias last year masterminded the successful flotation of a 15 per cent equity tranche under the government's partial privatisation programme. But he has clashed several times with George Chryssoulouris, a former MIT professor who was appointed chief executive in January with a brief to speed OTE's modernisation and streamline plans to expand outside Greece.

OTE officials played down his resignation, pointing out current legislation gives the chief executive, rather than the chairman, responsibility for decision-making.

On the Athens stock exchange, OTE's share price rose 2.5 per cent in line with the market's overall rise.

About 25 per cent of OTE's shares are held by private investors. Institutions in western Europe and the US hold about 12 per cent.

OTE reported disappointing first-half results, with net income up 7.1 per cent to Dr98bn ($330m) on operating revenues up 15.2 per cent to Dr431.6bn. It said the results were affected by losses of Dr5.7bn at CosmOte, its mobile telephony subsidiary.

Plans for regional expansion by acquiring strategic stakes in other Balkan telecoms operators were hit by the collapse last month of negotiations to form a strategic alliance with SBC of the US. The two operators had made a joint bid for a 35 per cent equity stake and management rights in Rom Telecom, the Romanian state operator, which is due to be sold this year.

# Poland's Gdynia buys assets of Gdansk yard

By Christopher Bobinski in Gdansk

Poland's Gdynia shipyard yesterday took its first step to creating one of Europe's largest shipbuilding companies when it bought the assets of the bankrupt Gdansk yard for 115m zlotys ($32m).

"We shall be making more purchases," Janusz Szlanta, managing director of Gdynia, said as he signed the agreement with the liquidator of the Gdansk yard, which was declared bankrupt two years ago.

Mr Szlanta wants Gdynia to invest in the marine engine department of the Cegielski works in Poznan and says his shipbuilding group will have annual turnover of $1bn in five years.

Under yesterday's deal, the historic Gdansk yard, where the Solidarity union was born in 1980, will be reconstituted as a separate entity. It also provides employment guarantees for the 2,000 employees who still work at Gdansk.

Meanwhile Gdynia, which plans a stock exchange flotation by the middle of next year, has promised to invest a minimum of $31m in Gdansk over the next two years. Gdynia, which employs 7,700, also plans to hand two of the vessels on its order book to be built at Gdansk next year. Gdansk has completed five vessels since it was officially declared bankrupt.

The proceeds of the sale, handled by Andrzej Wiercinski of Wardynski and Partners, a Warsaw based law firm, are to be used to pay off the Gdansk yard's debts to the state. "There are no state subsidies backing this agreement, in contrast to previous rescues of European shipyards," Mr Szlanta said. BMF, the local consultants, advised Wardynski on the sale.

Deal provides job security for 2,000 workers at Gdansk *Piotr Malecki*

Last year Gdynia, whose labour costs are more than 10 per cent lower than those in Germany, declared net profit of 52m zlotys as it returned to the black for the first time since the beginning of the decade.

Gdynia expects to report a profit of 100m zlotys this year. The yard has radically cut production schedules in the past two years and has rebuilt links with local and foreign banks. Sales last year reached 952m zlotys. Sales this year are expected to reach 1.5bn zlotys.

Gdynia is planning a new stock issue worth about $20m later this year. The offer, which is being handled by ABN Amro, would be directed to financial investors.

The state treasury still owns 34 per cent of the yard, while employees and management control 51 per cent. Suppliers who earlier agreed to a debt for equity swap have 13 per cent.

# Weather helps Swiss group

By William Hall in Zurich

Holderbank, the Swiss group that is the world's biggest cement company, said yesterday first-half net income after minorities rose 32 per cent to SFr290m ($205.5m), with lower operating costs more than offsetting sluggish revenue growth.

The group, which operates in 61 countries and employs almost 40,000 people, increased operating profits 21.5 per cent to SFr719m as sales rose 1.8 per cent to SFr5.4bn. Cash flow from operating activities rose 75 per cent to SFr485m.

Favourable weather conditions in Europe in the early part of the year, combined with higher volumes, lower operating costs and increased selling prices, more than offset the decline in profitability of the group's Asian businesses, which account for less than 10 per cent of the total.

The margin of earnings before interest and tax as a percentage of sales increased by 2.2 percentage points to 13.4 per cent. Staff numbers fell 12 per cent to 39,651, and total cement production capacity rose 4.2 per cent to 82.1m tonnes a year.

Sales of cement and clinker rose 2.3 per cent to 31.7m tonnes in the first half. Sales of aggregates rose 8.6 per cent to 38m tonnes, and sales of concrete rose 11 per cent to 10m tonnes.

Holderbank's shares have fallen sharply from their summer peak because of fears about the group's exposure to Asia where it has been building up capacity.

However, yesterday's results underscored the group's heavy exposure to the stronger economies of North America and Europe where a mild winter contributed to an early start for construction activity.

Holderbank invested SFr717m in the first half, some 16 per cent down on the comparable period of last year.

It has completed its investment in new cement plants in Vietnam and the Philippines and has taken advantage of the Asian financial crisis to expand its business in the region.

Even if there is an economic downturn in the second half, it is confident that it can "significantly increase" its full-year net income.

In 1997 it increased net income by 25 per cent, to SFr618m. The main reason for its confidence is its increased focus on its core business of cement, aggregates and concrete as well as cost efficiency programmes which are just starting to bear fruit in 1998.

# Vendex confident of KBB merger go-ahead

By Jeremy Gray in Amsterdam

Vendex, the Dutch retailer, yesterday remained optimistic on securing approval from the country's antitrust watchdog for its merger with KBB, the rival department store group, in spite of an unusually long vetting period.

"There should be clarity [on the merger terms] within one to two weeks. We are confident that we can solve the matter in the proper fashion," Jan-Michiel Hessels, Vendex chairman, said as he presented the company's half-year earnings.

The Dutch competition authority, the NMA, is due to give a ruling on the proposed merger by October 8.

However, Mr Hessels noted that the NMA could extend the deadline because its investigations span 22 product groups in what the chairman described as a "very complex case".

The NMA was looking especially hard at the impact on the lingerie and babies' clothing markets, he added.

Vendex, owner of the Vroom & Dreesman department store chain, bid $840m for KBB in February. The case was referred to the European Commission, which passed it back to the NMA in May. KBB includes the Bijenkorf department stores and FAO Schwarz, the US toys retailer.

Mr Hessels reiterated that a Vendex-KBB fusion would put nearly 100 per cent of the department store market under one roof. However, a merger would be "out of the question" if the NMA demands that the groups sell one of their department store chains.

His remarks came after news of a steep drop in first-half net earnings, to Fl 109m ($54m) from Fl 745m a year earlier. Stripping out non-recurring items and property income, net profit rose 22 per cent.

Vendex, which is spinning off its food group, warned that earnings for the year would fall short of the "exceptional" level of a year earlier. The shares closed in Amsterdam at Fl 78.20, down 40 cents.

# Banks 'lack strategy on internet'

By Christopher Brown-Humes

Banks around the world are rushing to invest in the internet, but many have no idea how to make money from it or know which of their customers want it, a survey has found.

It also shows banks are generally pessimistic about being able to increase sales or retain customers via the internet.

The survey, published by Ernst & Young, the management consultants, is based on responses from more than 100 of the world's largest banks operating in 36 countries and is one of the most comprehensive yet.

Jonathan Charley, banking partner at Ernst & Young, said: "Clearly many banks regard the internet as simply another technology. They have no idea how to make money from it.

"Most have no idea which customers, if any, want to use it, but many of the bank teams surveyed seem compelled to invest now without a definable strategy."

He added that if banks were commercial organisations seeking loans on the basis of their internet strategies, they would get short shrift from lenders because the business case simply was not there.

The survey finds banks are spending heavily on electronic banking services, predicting they will spend proportionately the same amount on internet technology as they currently spend on their high street branches by 2001.

But more than 96 per cent of banks surveyed admitted they were not expecting to lift sales via the internet and only 34 per cent of European banks felt that the internet would help them retain customers.

While US banks said they were more optimistic, 70 per cent admitted to not having internet pricing strategies in place.

"Increasingly, the very infrastructure that makes it easier to deliver a wider range of products and services to help keep customers happy, also makes it easier for customers to compare and contrast competitors.

"As firms try to catch up with small, high-tech competitors, they may inadvertently be accelerating the issue of dwindling customer retention," said Mr Charley.

He added that many banks were investing in the internet without considering it in the context of their broader distribution strategies and processing of internet inquiries was too slow, compared with inquiries to call centres.

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FINANCE: EUROPE

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**TELECOMMUNICATIONS** JAPANESE FINANCE MINISTRY SEEKS APPLICATIONS TO MANAGE DISPOSAL OF FOURTH TRANCHE

# Sale of NTT shares may raise Y1,000bn

By Michiyo Nakamoto in Tokyo

Japan's ministry of finance has begun preparations to release a fourth tranche of up to 1m shares in NTT, the country's dominant telecommunications group, in what will be one the largest government sales of shares.

Yesterday, the finance ministry, which owns 65.4 per cent of the group, said it would be sending invitations today and tomorrow to qualifying brokers to submit applications to manage the issue. Lead managers would be chosen by early October.

Preparations are expected to be completed by the end of November for the sale to take place this year.

The Japanese government is expected to raise about Y1,000bn ($7.6bn) by selling up to 1m shares at home and in the US and UK. NTT has 15.9m shares in issue.

This would be the first time that shares held by the Japanese government were sold through a public offering overseas. NTT shares have already been placed in New York and London.

The move comes as NTT is preparing to sell a significant part of its holding in NTT Docomo, its mobile phone subsidiary. The initial public offering of NTT Docomo, which could value the unit at $50bn, will be one of the largest share offerings in the world in recent years.

NTT has not yet detailed how it plans to use the proceeds from the Docomo sale but said they could fund capital spending and pay back investors. "Our investors have been asking for some kind of payback," it said.

That could take the form of a share buy-back to boost the share price, or a dividend increase, according to one analyst close to the company.

In April 1987, a year after the first tranche was released, the shares started falling from a high of Y3.19m and reached an all-time low of Y453,000 in August 1992 after revelations that the company president was involved in a financial scandal and persistent rumours the company would be broken up. Yesterday they closed down Y20,000 at Y1.08m.

While the finance ministry has regularly included a sale of NTT shares in its annual budget, weakness of the Tokyo market has prevented any sale of further tranches. This year, despite the sluggish market, the Japanese government is under pressure to raise funds to pay for tax cuts and increased public spending by selling government assets.

# Japan struggles to dismantle a huge petrol time bomb

Failed market reforms and large debts have left the country's oil industry vulnerable as prices continue to fall, writes **Alexandra Harney**

Pull into a petrol station in Japan and a beaming team of attendants will descend upon your car. The elaborate service, which often includes free tissues, ends with a finale of cheers to guide you safely back on the street.

But behind the scenes, a gloomy drama is unfolding. The oil industry's symptoms read like a list of the problems dogging the whole Japanese economy – excess capacity, falling prices, meddling bureaucrats, resistance to employee lay-offs, heavy debt and losses on property holdings.

It was not supposed to be this way. During the 1970s and 1980s, the government closely monitored the industry to expand capacity and regulate operating capacity. Then, under pressure to improve poor performance, it began deregulation in an attempt to open the market to competition. Instead, the reforms have laid bare its many problems – and even exacerbated them.

The sector's bad debts have swelled to an estimated Y5,000bn ($37.9bn), according to Booz-Allen Hamilton, the consultancy group, and the petrol stations' problems could cost another Y150bn to clean up.

But resolving Japan's petrol problem is not simply a question of money – years of mismanagement need to be addressed.

The industry, with about 50 refineries and 60,000 petrol stations employing at least 500,000 people, is plagued by enormous overcapacity – estimated by analysts to be about 50 per cent too much.

The industry's operating costs are also among the highest in the world, making it harder for oil groups to handle the sharp fall in domestic petrol prices following deregulation.

The average price of a litre of petrol in the early 1990s was about Y110. Following the reforms in 1996 that allowed self-service stations, the average price has tumbled to Y90, with some self-service stations in competitive urban areas selling petrol at Y75.

This has dented margins. Salomon Smith Barney in Tokyo estimates the spread between wholesale and retail petrol prices has fallen from Y40 in 1995 to less than Y10 this year.

As a result, turnover is down and profits have fallen. Sales volumes plunged at the big five oil groups last year: Mitsubishi Oil, an industry leader, suffered a 62 per cent fall in net earnings to Y28.3bn, on sales down 4.5 per cent to Y1,073bn, while Cosmo Oil reported a 40 per cent drop in profits to Y5.3bn.

Service stations which are operated by individual dealers that have contracts with oil companies have been the worst hit – more than 70 per cent are estimated to be operating at a loss.

Japan has modern, efficient refineries, which could be highly profitable if they were operated at higher capacity and under better market conditions. Analysts estimate that with half the number of refineries, run closer to full capacity, the sector could produce enough fuel to meet Japanese demand and export overseas.

The problems have been exacerbated by debt. All of the big oil groups borrowed heavily in the 1980s to invest in new refineries and petrol stations. The station operators turned to the big oil groups for credit to improve sagging cash flow, and used their land as collateral. As land prices have collapsed, the oil sector is stuck with mountains of bad debt.

Self-service stations, which should be less costly to operate because they require fewer employees, are actually increasing the debt burden. Not only does opening a new petrol station cost about Y150m, but they have triggered another round of price cuts, which has shaved margins even further.

Oil groups' attempts to address their cost problem are failing miserably. Although they have closed refineries and petrol stations, encouraged early retirements and sought to share distribution facilities, analysts say the scale of the restructuring is not sufficient to remove the excess capacity.

The oil sector can ill afford to keep costs at current levels. Operating costs at refineries are more than double those in the US or Europe, and over-staffing means on-site operating costs at petrol stations are three times as high, according to Booz-Allen Hamilton.

Plans are afoot to close 10,000 service stations. But each closure costs at least Y5m, according to Cosmo Oil, which means the planned restructuring will cost the industry at least Y50bn. If oil groups were to accelerate these plans and close half of the existing oil stations, the price tag for the clean-up could climb as high as Y150bn.

Nor are mergers and consolidation of operations between companies – what one analyst calls "strapping two sinking boats together" – the answer, as they leave considerable excess capacity in the market. While the dilemma is roughly the same at almost all the big oil companies, the sector can be divided into three.

Nippon Sekiyu is among the strongest. Mobil and Esso, the US groups, have sufficient cash reserves to weather the current crisis. But Idemitsu, Cosmo and Japan Energy are weak and heavily dependent on funding from big Japanese banks and have been called by one observer "dead men walking".

**Pump it up**

| Refining | Japan | US/Europe |
|---|---|---|
| Current margin ($ per barrel) | 5.0 | 3.0 |
| Capacity ('000 barrels per day) | 115 | 200 |
| Utilisation (%) | 79 | 92 |
| Operating costs ($ per barrel) | 4.7 | 2.5 |

| Marketing | Japan | US/Europe |
|---|---|---|
| Current margin from refinery to pump (cents per litre) | 15 | 5 |
| Petrol throughput/site ('000 litres per month) | 80 | 400 |
| Operating cost on-site (cents per litre) | 13 | 4 |
| Operating cost above-the-site (cents per litre) | 9 | 1 |
| Non-fuel revenue ($ per month) | 8,000 | 60,000 |
| Capital employed ($ per litre per month) | 5 | 20 |

Source: Booz-Allen Hamilton

## NEWS DIGEST

**NICKEL**

## QNI shares rise 35% on Billiton offer

Shares in QNI, the Australian-listed nickel group, jumped 35 per cent to 92 cents yesterday to close above the 90 cents a share takeover offer made by Billiton of the UK. QNI shares traded as high as 98 cents during the day as investors speculated that the London-listed Billiton would be forced to lift its offer.

Billiton holds 52.3 per cent of QNI which it acquired via a merger of QNI and Billiton's nickel division a year ago. As Billiton already has a controlling shareholding it is unlikely any counter-offers for QNI will emerge. However analysts believe Billiton will have to boost its bid if it wants to secure 100 per cent ownership.

QNI has advised shareholders "to take no action in relation to Billiton's unsolicited offer at this stage". It is one of the world's five largest producers of nickel with an integrated mine and-smelter operation at Cerro Matoso, Colombia and the Yabulu refinery in north Queensland, Australia. **Russell Baker, Sydney**

**THAI BANKING**

## Krung Thai president to resign

Sirin Nimmanahaeminda, president of Thailand's state-owned Krung Thai Bank, announced that he would resign effective January 15 next year as part of a sweeping government reorganisation of the bank. Mr Sirin's resignation comes after a new board of directors for the bank was appointed last week. The new chairman is social activist Meechai Viravaidya, and under an agreement with the International Monetary Fund the new board includes only one sitting government official.

Under a banking sector restructuring package announced last month, Krung Thai will absorb all operations of recently nationalised First Bangkok City Bank and take over the performing assets, deposits and liabilities of Bangkok Bank of Commerce. Krung Thai is slated to be privatised within two years after an operational restructuring. **Ted Bardacke, Bangkok**

**MOBILE TELECOMS**

## Hutchison to invest HK$3.5bn

Hutchison Whampoa, the Hong Kong-based conglomerate controlled by tycoon Li Ka-shing, yesterday said it would spend HK$3.5bn (US$451m) over the next three years to upgrade its mobile telecoms network. Hutchison Telecom, the group's telecoms arm, previously ranked as the territory's biggest mobile network in terms of subscribers, but was overtaken after Hongkong Telecom, the dominant fixed-line carrier, acquired a second operator.

News of Hutchison's increased investment in telecoms comes barely a fortnight after Mr Li said he would consider reducing his investment in the industry if the government pressed ahead with plans to award more fixed line licences. The government's decision is due next month.

Yesterday Hutchison said the new investment would upgrade its mobile phone network in Hong Kong. These improvements will enable users of the two mobile networks, which operate on different frequencies, to access both with the same handset. **Louise Lucas, Hong Kong**

**AEROSPACE** US MANUFACTURER GAINS IMPORTANT FOOTHOLD IN CONSOLIDATING EUROPEAN MARKET

# Bell Helicopter in Agista joint venture

By Paul Betts in Milan

Bell Helicopter of the US yesterday gained a significant foothold in the consolidating European aerospace industry by signing a joint venture agreement with Agusta, the Italian helicopter manufacturer due to combine its operations with Westland, the UK helicopter maker owned by GKN.

Alberto Lina, chief executive of Finmeccanica, the Italian state holding which controls Agusta, also said his group was open to more transatlantic co-operations while seeking other strategic alliances in Europe.

Bell's joint venture with Agusta will involve the development of a new medium-sized twin engine civil helicopter for up to 15 passengers, called the Agusta AB139.

It will also encompass the joint development, production and marketing of Bell's Tilt-rotor civil aircraft – an aircraft that takes off vertically as a helicopter to convert in mid-air into a fixed wing aircraft.

Italian officials yesterday said the deal was estimated to be worth $25bn in sales over 20 years. Bell, part of US industrial holding company Textron, would have majority control with about 55 per cent.

The joint venture is expected to be absorbed into the wider collaboration between Agusta and Westland of the UK once the two European helicopter makers complete their joint venture to combine their helicopter activities. Agusta and Westland already co-operate on the EH101 large helicopter programme.

Westland will also be a risk-sharing partner in production of the new Agusta B139 helicopter along with Pratt & Whitney Canada, Honeywell, Kawasaki of Japan, Liebherr of Germany and other aerospace companies.

The new Agusta-Bell joint venture comes at a time when the French authorities are lobbying hard to set up a large single European helicopter group combining the Franco-German Eurocopter venture with other European manufacturers.

However, Pier Luigi Bersani, the Italian industry minister, yesterday warmly welcomed the Italian-US venture describing it as "an important step in the internationalisation and reorganisation of the Italian aerospace industry".

Aerospace industry officials yesterday said the deal had even more significant implications for Bell by allowing the US manufacturer entry into the fast consolidating European aerospace market.

Finmeccanica is currently in the throes of widespread restructuring and reorganisation as part of its privatisation and recovery process. It has already reached strategic partnership agreements in the defence sector with the UK's General Electric Company and is now strengthening its helicopter operations through its planned alliance with GKN Westland and the new joint venture with Bell, which has had nearly 50 years of collaboration with Agusta.

# Car parts makers shape up for floats

Delphi and Visteon try to move out of parents' shadows says **Haig Simonian**

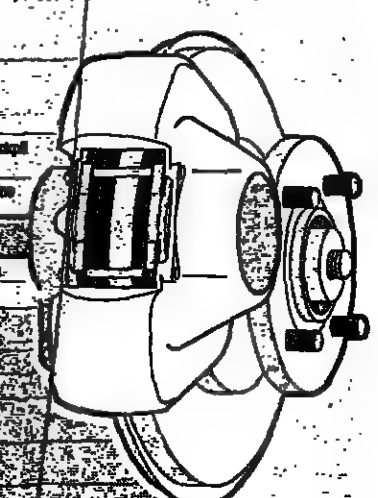
**More than the sum of their parts?**

Ranked on 1997 OEM parts sales

| Company | Total global sales 1997 $m | 1996 $m | Products |
|---|---|---|---|
| Delphi Automotive Systems* | 31,000 | 26,000 | Brakes, steering, suspension, cockpit components, [illegible] |
| Visteon Automotive Systems | 17,600 | 18,400 | Climate control, electronics, engine control, trim, fuel systems electrical and glass products |
| Robert Bosch | 16,500 | 15,300 | Brakes, engine control units, electronics, diesel injection |
| Denso | 13,104 | 13,800 | Electrical components |
| Aisin Seiki | 7,730 | n/a | [illegible] |
| Lear | [illegible] | 6,249 | Interior systems, seats |
| Johnson Controls | 7,290 | 5,942 | Interior systems, seats |
| TRW | 7,032 | 6,4[illegible] | Airbags, steering, [illegible] engine components |
| Dana | 6,217 | 5,450 | Drivetrain, structural, engine, chassis, sealing and filtration |
| Magna International | 5,500 | 4,209 | Interiors, chassis, seats |

Source: Automotive News [illegible]

*Includes Delco Electronics Corp [illegible]



By manufacturing everything for cars from sparking plugs to satellite navigation systems, Delphi and Visteon tower over their more specialised rivals. But, as General Motors and Ford, their respective parents, are learning, size is not everything in the components industry.

Both subsidiaries are preparing for flotation next year. So far, only GM has shown its hand. The world's biggest vehicles maker expects to list 15-20 per cent of Delphi by March. Although Ford has declined to comment, an initial public offering of Visteon seems likely after America's second biggest carmaker reorganised its component activities into its new subsidiary last year.

Delphi, with sales exceeding $31bn, is the world's biggest parts company, boasting 208 factories and 46 joint ventures in 37 countries. Although only about half Delphi's size, Visteon's sales of more than $17bn eclipse other parts makers such as Dana or Federal-Mogul.

But neither company is particularly profitable. Margins at Delphi are about 3.3-3.5 per cent – half the industry average. Visteon's margins are better, but still not exceptional.

One of Delphi's and Visteon's problems is their dependence on their parent companies for business. Another is that they pay assembly line rates rather than the lower wages paid by most parts makers. Delphi's problems are further compounded by a history of labour unrest.

Such factors explain why investors may hesitate before buying their stock. In Delphi's case, even a modest first tranche could raise $2bn.

The two groups have tried to improve their profits by eliminating low-margin businesses and beefing up products and marketing to break away from being just captive suppliers.

At Delphi, J. T. Battenberg, president since 1992, has pursued a relentless strategy of "fix, sell or close" to weed out low-earning operations. In recent months, Delphi has sold its seating, lighting and spring activities – with combined sales of $2.1bn a year. Mr Battenberg has closed or disposed of 53 plants and pruned Delphi's portfolio from 310 to 151 products.

Visteon, by contrast, has concentrated on reorganising and developing its vestigial marketing side. Charlie Szuluk, president, wants to expand, possibly by acquisition, to improve its competitiveness before a flotation.

Both groups have also been endeavouring to sell beyond their parent companies. For years, Delphi, formerly known as GM's Automotive Components group, had only one customer: the carmaker's North American vehicle divisions.

Mr Battenberg has tried to find new customers. NAO now accounts for about 66 per cent of turnover – which should fall to 50 per cent by 2003.

Mr Szuluk's aims are more modest. Visteon wants to raise sales to customers outside Ford to 20 per cent of turnover.

But both companies' figures are deceptive. Mr Szuluk argues his benchmark is more demanding, as Visteon's yardstick is of Ford business, while Delphi only talks of sales to customers other than GM in North America. That excludes Delphi's substantial, and partly captive, business with GM's European and South American vehicle operations.

Attempts to cut costs and lift sales to third parties have boosted the bottom line at both groups. Visteon's net earnings rose 53 per cent to $518m last year. In the first half of this year net profits climbed 21 per cent to $430m.

Profits at Delphi were $1.2bn last year, excluding special charges and adjustments. Mr Battenberg says Delphi is approaching his target of a 5 per cent margin on sales.

But both Delphi and Visteon have a long way to go if they are to appeal to investors. Delphi's task has been complicated by Delco. While the incorporation made sense on business grounds because of increasing links between their products, the transfer has taken time and held up the float.

Management structures have also required attention. Delphi will be America's 21st company in sales terms, but its upper echelons reflect its status as a subsidiary.

Last month, Mr Battenberg was promoted symbolically to chairman and chief executive. More importantly, some outsiders are being drafted in. Alan Dawes, a 43-year-old GM high-flier, has been appointed chief financial officer, and Thomas Wyman, a 68-year-old outside member of GM's board, will be lead director on the Delphi board. Mr Wyman has a reputation as an activist and should take a strong hand after the flotation.

Visteon has also been busy. In May, it bought two big parts makers in Poland to raise non-US sales. It may also have bid for the braking and body operations sold last month by ITT Industries to Germany's Continental for $1.7bn.

As befits the larger of the two, Delphi's managers face the tougher task. The recent strikes at GM, which included a Delphi plant, reopened old wounds in the company's often tense labour relations. The impact of the strikes showed in Delphi's first-half figures, when net income plunged to $347m from $721m.

Last month, the United Auto Workers Union, which represents about 25 per cent of Delphi's workforce, said it would oppose a flotation if that threatened jobs. But given the scale of Delphi's problems, investors will be unlikely to put up their money until the company reduces its overheads.

# MetLife plans 2,000 job cuts

By Richard Waters in New York

MetLife, the second largest US mutual insurance concern, yesterday announced plans to cut one in 10 administrative jobs, or nearly 2,000 of its non-sales workforce.

The move amounts to the latest attempt by an American mutual to boost profitability ahead of what could be a widespread switch to public company status in the industry.

The New York-based concern said that the plan to cut 10 per cent of its 19,500 administrative jobs by the end of this year was part of an effort to lower overall expenses, and would be followed by further moves to boost productivity next year.

MetLife's profits are weaker than others in its industry, putting it under pressure to act now ahead of any later decision to abandon its mutual status by moving to the stock market, according to analysts.

The company's return on assets traditionally falls in the range of 0.15-0.5 per cent, said Mark Puccia, a managing director at Standard & Poor's – a level that it should be able to "double or triple", he said. He added, though, that the insurer benefited from a strong capital base and sound assets.

MetLife said in March that it was considering changing its structure to make it easier to raise capital in future. Rather than becoming a standard joint stock company, MetLife executives favour the alternative of becoming a mutual holding company. However, that option is dependent on a change in New York state law, a move that legislators are likely to reject, and the group is expected to look on a stock market listing as an alternative.

# Heinz to sell bakery division

By Richard Tomkins in New York

HJ Heinz, the US food company, yesterday said it had agreed to sell Heinz Bakery, its frozen bakery products business, to Pillsbury, part of the UK's Diageo group for $178m.

The business has annual revenues of about $200m. It will become part of Pillsbury's bakeries and food service unit, which has annual sales in excess of $1bn and which has been targeted as a growth area by Diageo.

Paul Walsh, Pillsbury chief executive, said: "The Heinz unit has product lines very similar to our existing business, to which we can apply our technical skills in marketing and selling value-added bakery products."

Heinz also announced its results for the quarter to July, reporting a fall in net profits from $243m to $214m.

Excluding non-recurring items, it said earnings per share would have risen by 13 per cent to 60 cents, compared with the 59 cents expected by analysts.

Revenues were flat at $2.23bn because of divestments and the adverse effect of exchange rates, but the company said sales volume rose 3.7 per cent.

Heinz said it was selling its frozen bakery products business because it was not within the six core product areas it has identified for growth: food service, infant foods, ketchup and condiments; pet food, tuna and weight control.

Separately, Heinz said it planned to appoint a single advertising agency to handle the advertising and brand positioning of Heinz Ketchup around the world, with two companies on the short-list: Leo Burnett and Omnicom's TBWA International.

## NEWS DIGEST

**INVESTMENT BANKING**

### Goldman Sachs set to reveal fall in profits

The financial market turmoil of recent weeks will leave Goldman Sachs with a decline in profits in what could well be its final quarter as a private partnership, according to comments from senior executives yesterday. As expected, however, staff at the US investment bank were told yesterday that the uncertainty in equity markets would not deflect it from its plans for a stock market listing in November.

In an internal broadcast to the bank's staff, Jon Corzine and Hank Paulson, co-chairmen and co-chief executives, revealed that the bank's earnings in the third quarter would fall below the $1.04bn of the preceding three months. They did not disclose the extent of the decline. According to one person who heard the presentation, however, Mr Paulson said that he was "more than pleased" with the bank's performance during the quarter.

The financial collapse in Russia – where Goldman was closely involved in recent moves to raise international capital – has produced a string of profit warnings from other US investment banks and hit the share prices of the sector hard. **Richard Waters, New York**

**COMPUTERS**

### Sun opens up to Windows

Sun Microsystems, the only large computer hardware manufacturer to shun Microsoft's Windows operating systems, is launching a broad initiative to allow Windows programs to operate on its machines. The move could help Sun challenge Microsoft's rapidly rising share of the network operating system market where companies are increasingly choosing to use Microsoft's Windows NT.

Sun said its new network servers would combine the reliability of its own Unix-based operating system with Microsoft's network and file management program – systems which, it says, its customers prefer. It is also bringing out a new add-in card which will allow its desktop workstations to run Microsoft applications at high speeds. To complete the full suite of inter-operable products, it is adapting its network storage arrays to operate with NT.

The announcement comes as Sun and Microsoft are meeting in a San Jose court to settle a dispute over Sun's Java programming language. Sun alleges Microsoft adapted Java, in contravention of a licensing agreement, to create a version designed to run only on Windows-based machines. **Roger Taylor, San Francisco**

**CONNECTORS**

### AMP urged to reject AlliedSignal

AMP, the US connector maker, yesterday urged shareholders to reject continued approaches by AlliedSignal and promised improved profits. It expected that a "profit improvement plan" would have a positive impact on its bottom line by the fourth quarter of this year and boost the operating margin next year and the year after. "AMP's board of directors has rejected AlliedSignal's offer and recommends that you not tender any of your shares," it said in a statement to shareholders.

Last month, AlliedSignal said it was keeping its hostile bid for AMP at $44.50 a share in cash but that it was willing to negotiate.

AMP said AlliedSignal was trying to take over AMP's board because it currently does not own enough shares to complete the takeover. "AlliedSignal . . . currently cannot complete its tender offer until November 1999," AMP said. There was no immediate response from AlliedSignal.

AMP said its plan was expected to generate earnings per share of at least $2.30 in 1999 and an operating margin of 13.5 per cent, projected to rise to $3 and 16.5 per cent in 2000. In 1997 it reported earnings of $473m, or $2.15 a share, on sales of $5.75bn. **Agencies, New York**

**FUND MANAGEMENT**

### Panagora to scale back in London

Panagora, the US-based fund manager, is to scale back its London operations as it launches a European joint venture in Germany. The company, which manages about $17bn in assets, has decided to focus its overseas expansion efforts on strategic alliances with local partners. Its free-standing London base has struggled to gain a foothold in the competitive UK market although it has had limited success in continental Europe. A skeleton marketing operation will remain in London.

Panagora is to go ahead with plans for a joint venture with Deutsche Genossenschaftsbank, the Frankfurt-based retail bank. The venture, which to be launched next month after regulatory approval, will invest in bonds and equities in Germany, Austria, Switzerland and central Europe.

Panagora specialises in active quantitative fund management, which is still little used in the UK market, unlike in the US. **Jane Martinson**

## PUBLIC NOTICES

On the instruction of HM Government

### The Ministry of Defence Procurement Executive
### Future Strategic Tanker Aircraft Project

# FSTA

***An investment opportunity of strategic national importance with the broad potential for the design, finance and provision of an air-to-air refuelling capability and associated secondary air transport capability under Private Finance Arrangements***

The Ministry of Defence (MOD) is considering its options for the ***FSTA*** programme, which includes the replacement, management, operation and funding of the MOD's air-to-air refuelling (AAR) and associated secondary air transport (AT), support services and facilities. The MOD's existing AAR and associated AT services are undertaken by a fleet of 35 VC10 and Tristar aircraft which have been converted for this role. These aircraft are approaching the end of their useful economic life and therefore the MOD is required to consider options for their future operation and replacement.

STRATEGIC [redacted] The recent SDR has highlighted that 'the ability to rapidly deploy, sustain and recover our forces is of critical importance if we are able to respond quickly to future crises'. This reinforces the continuing need for an AAR capability which provides force multiplication and operational range enhancement for front line aircraft across a range of defence roles and military tasks. Thus an AAR capability will remain a fundamental UK requirement for the foreseeable future, both to support the deployment of combat forces to operational theatres and to provide vital support in-theatre. The ***FSTA*** project is seen as a key element in the delivery of this capability.

The MOD will be seeking expressions of interest from potential prime service providers and organisations who might take a significant role in the implementation of the ***FSTA*** project and who wish to be involved in the MOD's process of market consultation prior to procurement. More detailed information will be made available in a Request for Information expected to be issued in early 1999. However, to enable a degree of market building to occur in the meantime, a small brochure is available and can be obtained by contacting the Project Office on 44-(0)117-9134641, 44-(0)117-9134715 or 44-(0)117-9134698. It will also be available on the MOD web site at the following address:

http://www.mod.uk/commercial/pe/fsta/

Submissions for the ***FSTA*** project including the provision of a wide range of fleet management and other support services are to be on the basis of a services agreement that reflects the UK Government's Private Finance Initiative.

FSTA is a further project in the MOD's extensive PFI programme. A total of 21 PFI contracts have been awarded to date, with a total value of around £3bn. More than 100 further projects are underway or being considered, and FSTA is the largest so far. A full list appears at our web site www.mod.uk/pfu

Potential suppliers should be aware that if they chose to bid for this opportunity both they, their partners and immediate advisers will be required to be security cleared and expected to comply with the MOD's security requirements. Therefore consultation is likely to be restricted to those applicants who, in the opinion of the MOD, have the potential to be security cleared.

## COMPANIES AND FINANCE: UK

# Rowland to head NatWest

By George Graham, Banking Editor

Sir David Rowland, the architect of the painful reconstruction of the Lloyd's insurance market, is to take over next April as chairman of National Westminster Bank, ending months of speculation over who would succeed Lord Alexander of Weedon in one of the UK's most senior banking posts.

Sir David, 65, joined the NatWest board in April, but it had been widely assumed that the next chairman was likely to be Lord Blyth of Rowington, chief executive of Boots, the pharmaceuticals retailer and another new NatWest director.

The bank insisted yesterday, however, that Sir David was "the best man for the job and our first choice."

Lord Blyth remains committed to Boots until 2000, but some large investors were keen that Lord Alexander, who took over as chairman nine years ago, should not stay on till then.

Lord Alexander, who turned 62 last week, said: "Our normal rule is that no director should serve for longer than 10 years. I think it is right that that should apply to me."

NatWest is emerging from a period of turbulence which has seen its profits buffeted by difficulties in its investment banking operations and its share price underperform the rest of the UK banking sector.

The discovery last year of losses in its options trading led to a reexamination of its entire investment banking strategy and a decision to concentrate on its core UK retail and business banking operations.

At the same time, the bank employed headhunters to bring new blood onto its board, a search which resulted in the appointment as directors of Sir David and Lord Blyth.

NatWest surprised the stock market in August by reporting better than expected pre-tax profits of £967m ($1.6bn) for the first six months of the year.

Nevertheless, after the financial difficulties and strategic about-turns of the last three years, some large institutional investors argued that a change was needed at the top of the bank.

NatWest has been less exposed to credit losses in Russia than its closest rival, Barclays, but its shares have still plunged in the last two weeks.

They recovered yesterday, gaining 33p to close at 980p.

# Strong will takes helm as storms threaten

**George Graham** asseses the challenges facing the urbane Sir David Rowland, who takes over as chairman of National Westminster Bank next April

Two years ago, Sir David Rowland rang the Lutine Bell, the traditional herald of good and bad news in London's Lloyd's insurance market, three times to mark the institution's renaissance from the catastrophies that had almost driven it out of business at the start of the decade.

National Westminster Bank, where he will take over as chairman from Lord Alexander of Weedon next April, has had its fair share of disasters in the last 10 years, though not on the same scale as Lloyd's. The bank has appeared accident-prone, stumbling in its investment banking operations from the Blue Arrow scandal to the mispricing last year of its book of options, and buffeted by questions about whether it might, willingly or unwillingly, merge with Abbey National, Prudential or its arch-rival, Barclays.

Sir David Rowland: did much to sugar the bitter pills at Lloyd's — Jason Orton

Now, however, NatWest has got rid of its US operations and its equities business, and appears to have resigned itself to being a domestically focused bank. But Sir David, who joined the board in April, will take the helm just as international financial markets are emerging from a spell of turbulence and as the UK economy seems set for a slowdown.

Sir David, 65, is an urbane and polished businessman whose courtly manners did much to sugar the bitter pills the Lloyd's market had to swallow under his chairmanship, soothing at least some of the angry Lloyd's members who poured invective at him over the losses they suffered. But former associates say the politeness conceals a steely will, and he can be demanding to work for.

He went straight into insurance from medical school at Cambridge, joining Matthews Wrightson. By the age of 31 he was on its board, and proceeded to build it through a series of mergers into Stewart Wrightson, one of the most successful insurance brokers of the 1980s.

The man he succeeds, Lord Alexander, the former barrister who has chaired NatWest for the last nine years, recalls that when he took charge NatWest had to contend with the fall-out from the Blue Arrow affair, and more damagingly, of recession in the UK, the US and Australia.

"We were very, very weak for a number of years, so we were unable to take advantage of the opportunities that arise out of difficult markets," he said yesterday.

Lord Alexander believes that, together with Derek Wanless, the chief executive, he has lessened NatWest's traditionally hierarchical approach to business, making the bank more flexible and more concerned with its customers.

The two have also taken a cautious attitude to lending. Anticipating a slowdown in the growth of the UK economy, they have over the last year tightened NatWest's lending criteria in the hope of avoiding the large loan losses the bank suffered, along with the rest of the UK banking sector, during the last recession.

"I sometimes say we have destuffed the bank. I believe and hope that events will also show that we have kept proper control of our book," he said.

One of the greatest uncertainties hanging over NatWest in the last few months has, in fact, been the identity of its next chairman. It has been clear for some time that Lord Alexander would depart early next year, though City gossip was divided over whether this was his own desire or the result of pressure from institutional investors.

The City's assumption was, however, that his preferred replacement was Lord Blyth of Rowington, the chief executive of Boots, the pharmaceutical retailer, who joined the NatWest board at the same time as Sir David and Anthony Habgood, executive chairman of Bunzl, the specialist paper group.

But Lord Blyth is still committed to Boots, and doubts have swirled in recent months over suggestions that the bank might have to go for a temporary solution to bridge the gap between Lord Alexander's departure and Lord Blyth's becoming available. NatWest yesterday said Sir David was "the best man for the job and our first choice".

Lord Alexander added: "We brought able people on to the board earlier this year, and there were several possibilities among them, if they were available. We were very conscious that James Blyth wouldn't have been available till 2000."

NatWest also announced yesterday that Sir Richard Evans, chairman of British Aerospace, would join its board in October. Lord Hurd, the former foreign secretary, and Sir George Quigley will both step down from the board in April, in line with the bank's policy that directors should leave at the shareholders' meeting prior to their 70 birthday.

Lord Hurd will remain deputy chairman of Coutts, NatWest's private banking subsidiary, and chairman of the advisory board of Hawkpoint Partners, its mergers and acquisitions advisory unit. Sir George will continue as chairman of Ulster Bank.

## RESULTS

| | | Turnover (£m) | | Pre-tax profit (£m) | | EPS (p) | | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Access Plus Φ | 6 mths to June 30 | 9.87 | (6.68) | 1.57 | (1.05) | 6.41† | (4.84) | 1.96 | Oct 16 | 1.56 | - | 4.65 |
| Aegis | 6 mths to June 30 | 2,013 | (1,848) | 24.1 | (21) | 2 | (1.7) | 0.35♣ | Oct 6 | 0.3♣ | - | 0.7♣ |
| Aggregate Inds | 6 mths to June 30 | 367.2 | (205.5) | 23.2 | (7.84♦) | 1.2† | (0.5) | 0.84♣ | Dec 4 | 0.8 | - | 2♣ |
| Baird (William) | 6 mths to June 30 | 244.9 | (283.7) | 14 | (11.8) | 8.2 | (6.7) | 4.1 | Jan 7 | 3.9 | - | 10.3 |
| BBA | 6 mths to June 30 | 600.3 | (528) | 83.7 | (78.3♥) | 13.9† | (12.4) | 2.65♣ | Nov 13 | 2.4♣ | - | 8♣ |
| Beradin Holdings | 6 mths to June 30 | 0.501 | (0.420) | 0.415 | (0.182) | 2.15 | (0.8) | nil | - | nil | - | 2.2♣♣ |
| Brammer | 6 mths to June 30 | 117.3 | (111.9) | 13.4 | (14) | 19.6 | (20.9) | 6 | Nov 11 | 5.6 | - | 17.2 |
| Charter | 6 mths to June 30★ | 598.6 | (505) | 44.7 | (48.4) | 29.2 | (33.9) | 9.5♣ | Nov 9 | 9.5♣ | - | 31.5♣ |
| [illegible] | 6 mths to June 30 | 182 | (145.2) | 3.04 | (2.68) | 9.8 | (8) | 2.75 | Nov 16 | 2.5 | - | 8.75 |
| Expamet Int | 6 mths to June 30 | 61.5 | (56.1) | 5.75 | (4.38) | 6.25 | (4.83) | 1.95 | Nov 13 | 1.7 | - | 3.65 |
| Fishers Int | 6 mths to June 30 | 18.4 | (21.9) | 1.88 | (1.23) | 1.1† | (0.8) | 0.25 | Nov 30 | 0.2 | - | 0.65 |
| Fisher (James) | 6 mths to June 30 | 31.9 | (31.2) | 3.35 | (9.4♥) | 4.73 | (8.75) | 1.4 | Nov 19 | 1.2 | - | 3.2 |
| Fitch | 6 mths to June 30 | 14 | (11) | 1.43 | (1.32) | 2.98† | (2.53) | 0.31♣ | Oct 9 | 0.28♣ | - | 0.86 |
| Hay & Robertson | 6 mths to June 30 | 8.72 | (7.9) | 0.636 | (0.479) | 2.14 | (1.63) | - | - | - | - | 0.3 |
| Hilldown | 6 mths to June 30 | 1,321 | (1,511) | 52.1 | (6.9) | 5.2† | (5.8) | 2.25 | April 7 | 2.2 | - | 10♣♣ |
| Holmes Place | 6 mths to June 30 | 16.4 | (12.2) | 3.83 | (2.6) | 4.5† | (4.2) | 1.5 | Nov 2 | nil | - | 3 |
| Huntleigh Tech | 6 mths to June 30 | 47.9 | (43.9) | 7.76♥ | (7.2♥) | 6.27 | (6.19) | 1.55 | Nov 2 | 1.4 | - | 3.1 |
| Iceland | 6 mths to July 4 | 833.6 | (711.2) | 23.6 | (17♦) | 5.33‡ | (3.44) | 1.8 | Nov 16 | 1.8 | - | 5.4 |
| IMI | 6 mths to June 30 | 787 | (715) | 88.3♥ | (78) | 17.8 | (14.4) | 5.7♣ | Sept 18 | 5.4♣ | - | 14♣ |
| Intercare | 6 mths to June 30 | 32.5 | (22.3) | 1.32 | (0.95) | 3 | (2.2) | 0.9 | Oct 23 | 0.8 | - | 4 |
| Jardine Lloyd | 6 mths to June 30 | 118.9 | (116.8) | 30.3 | (18♦) | 10.6† | (4.5) | 5 | Nov 16 | 4.5 | - | 22.25♣♣ |
| Jermyn Investment | 6 mths to June 30 | 4.61 | (3.25) | 1.37 | (0.54) | 6† | (1.99) | 2.7 | Oct 29 | 2.5 | - | - |
| MHP | 9 mths to June 30 | 16.8 | (7.82) | 5.37 | (2.27) | 6.96† | (4.59) | 2.15 | Oct 9 | 1.5 | - | 6.25 |
| Norwich Union | 6 mths to June 30■ | - | (-) | 460 | (335) | 17.5 | (11.9) | 4.25 | Dec 16 | - | - | - |
| Novara | 6 mths to June 30 | 107.4 | (100.1) | 4.37 | (4.83) | 3.27 | (3.42) | 1.84 | Oct 21 | 1.84 | - | 5.75 |
| H R Owen | 6 mths to June 30 | 199 | (188) | 3.05 | (2.15) | 1.19 | (0.85) | 0.5 | Oct 7 | 0.4 | - | 0.8 |
| Paladin Resources | 6 mths to June 30 | 3.47 | (6.33) | 1.4L | (0.099L♦) | 2.31L | (1.6) | - | - | - | - | - |
| Padang Senang | 6 mths to June 30 | 0.287 | (0.296) | 0.121 | (0.104) | 1.61 | (1.33) | nil | - | - | - | 3♣ |
| P&O | 6 mths to June 30 | 3,128 | (2,880) | 138 | (123.1) | 16 | (14.6) | 13.94 | Apr 6 | 13.6 | - | 30.5 |
| Pentland | 6 mths to June 30★ | 252.9 | (316.2) | 14.5♦ | (7.1) | 2.26‡ | (0.52) | 1.54 | Nov 2 | 1.47 | - | 3.66 |
| Scottish Media | 6 mths to June 30 | 99.9 | (87.9) | 27♥ | (18.5) | 9.2† | (21.6) | 8 | Nov 6 | 6.6 | - | 22.5 |
| Sisson | 6 mths to June 30 | 100.9 | (131.3) | 6.7 | (2.9) | 2.3 | (1.1) | 0.32 | Oct 5 | - | - | 0.64 |
| Singapore Para | 6 mths to June 30 | 0.383 | (0.350) | 0.212 | (0.182) | .46 | (1.2) | nil | - | nil | - | 3♣♣ |
| South Beach Consolt. | 6 mths to June 30 | 0.605 | (0.253) | 0.436L | (0.506L) | 0.5L | (0.57L) | - | - | - | - | - |
| Stratware Φ | 6 mths to June 30 | 9.64 | (7.7) | 0.231 | (0.549) | 3† | (3.3) | - | - | - | - | 2 |
| Taylor Woodrow | 6 mths to June 30 | 668.4 | (625.8) | 48 | (36.2) | 8† | (6.2) | 1.5 | Nov 2 | 1.25 | - | 4.5 |
| Tracker Network | 6 mths to June 30 | 7.36 | (6.67) | 1.22 | (0.451) | 2† | (8.5) | 2.5 | Jan 7 | - | - | 5 |
| VI Group Φ | 6 mths to June 30 | 1.83 | (1.64) | 0.016♦ | (0.105♦) | - | (-) | - | - | - | - | - |
| Wates City of Lon | 6 mths to June 30 | 3.86♦ | (3.1♦) | 8.48 | (2.58) | 2.2 | (0.92) | - | - | - | - | - |
| Williams | 6 mths to June 30 | 1,234 | (930) | 269.5♥ | (118.1) | 23.4 | (10) | 6.25♣ | Oct 2 | 6.06♣ | - | 15.8♣ |
| Wyndham Motor | 6 mths to June 30 | 49.7 | (38.5) | 0.692 | (0.136♦) | 13.0 | (1.39L) | 3.5 | Oct 16 | - | - | - |
| Yale Cato | 6 mths to June 30 | 262 | (184) | 22.55♦ | (18) | 10.4 | (11.6) | 4.4 | Nov 24 | 4 | - | 10 |

| Investment Trusts | | NAV (p) | | Attributable Earnings (£m) | | EPS (p) | | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Edinburgh US Track | 6 mths to July 31 | 557.24 | (474.76) | 1.87 | (1.95) | 2.24 | (2.35) | 2♣ | Oct 9 | 1.9 | - | 5.6 |
| TR European | Yr to June 30 | 258.83 | (171.43) | 1.37 | (1.31) | 0.89 | (0.97) | 0.25 | Nov 2 | 0.9 | 0.25 | 0.9 |
| Warrants & Value | 6 mths to June 30 | 61.13 | (44.66) | 0.016L | (0.073) | 0.02L | (0.09) | - | - | - | - | - |

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ★ Comparatives restated. ■ Comparative pro forma to June 15. ‡ Reduced capital. ♣ Foreign Income Dividend. ♣♣ Foreign Income Dividend Component. ♦ Net Rental income.

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# Charter shares fall 13% after warning

By Andrew Edgecliffe-Johnson

Charter, the welding and rail track equipment group, warned yesterday that "the increasingly uncertain economic environment" in Asia, Latin America and the UK had reduced its expectations of profits in the second half of the year.

Analysts cut their profit forecasts by as much as 15 per cent in response, prompting a 13 per cent drop in Charter's share price, from 531p to 463¼p. Analysts, who had been expecting pre-tax profits of £98m ($162m) cut their predictions to between £83m and £88m.

Nigel Smith, who became Charter's chief executive in July when former chairman and chief executive Jeffrey Herbert split his roles, said: "We believe there will be continued weakness in the Far East and an increasing effect on Latin America."

Although Charter's European and North American markets had mostly been robust, he added: "I am trying to make the realistic point that there will be an effect (from any economic downturn). The matter for debate is how much."

Charter's pre-tax profits for the six months to June 1998 slipped by 3.2 per cent to £33.7m, due to sharply increased interest costs incurred following the group's acquisition of Howden, an air and gas handling business, in April 1997.

The group, which has negative shareholders' funds, increased net debts from £320m to £368m. Although interest cover stood at four times, some analysts expressed concern that any sustained fall-off in profits could reduce Charter's ability to cover its interest bills.

One analyst said: "It all depends whether there is a hard landing or a soft landing." He said Charter, which was said to have turned down a £250m approach for its specialist engineering business earlier this year, could try to relieve the debt burden by selling the division, which includes Pandrol rail track equipment and a small aerospace fans business.

Operating profits in the first half improved by 14 per cent to £57.2m at constant exchange rates, and turnover increased by 26 per cent to £599m by the same measure, largely thanks to the inclusion of Howden.

Mr Smith said Charter's order book had been maintained over the period, and that the group had made "significant progress" in restructuring Howden. Analysts said that the expected benefits from the restructuring, which is aimed at doubling Howden's margins to 10 per cent, would now take longer to come through, however.

Mr Smith said that sales of its Esab welding equipment had increased everywhere except in Asia, but said further reorganisation would be needed. He acknowledged that many of Charter's businesses were exposed to vulnerable capital equipment markets, but insisted that its divisions were "well placed through positions of world leadership to weather lower levels of global economic activity."

# Norwich Union signals expansion in Europe

By Christopher Brown-Humes

Norwich Union yesterday signalled a shift to a more aggressive acquisitions strategy as it disclosed interim profits at the top of forecasts in spite of tough markets.

It said it had evaluated a number of potential purchases during the first half and regarded itself as a "consolidator".

Richard Harvey, chief executive, said the group was keener to expand in UK life and pensions than general insurance and it wanted to expand its European operations in countries such as Spain and Ireland.

He said the group would rely on borrowing or a share issue to fund any sizeable purchase. Analysts believe the group could comfortably raise £2bn ($3.7bn) if required.

News of the drive comes amid continuing speculation that Norwich itself could become a takeover target, even though it is worth more than £8bn following a 50 per cent rise in its shares since its June 1997 flotation.

Mr Harvey declined to comment on the latest rumours, suggesting Halifax and the Australian group AMP as possible predators. He insisted the group's interim figures showed it had "a highly viable, independent long term future."

Pre-tax operating profits of £348m represent an effective 11.5 per cent increase on last year, with direct comparisons muddied by the flotation. Pre-tax profits were £460m, reflecting substantial investment gains in strong stock markets and £32m of disposal gains.

The shares closed 27p higher at 452p, well ahead of the 290p flotation price, but below a peak of 558p.

Analysts highlighted a robust performance in general insurance, despite £13m of flood losses and a very tough motor insurance market. General insurance operating profits were £39m, against £50m last year.

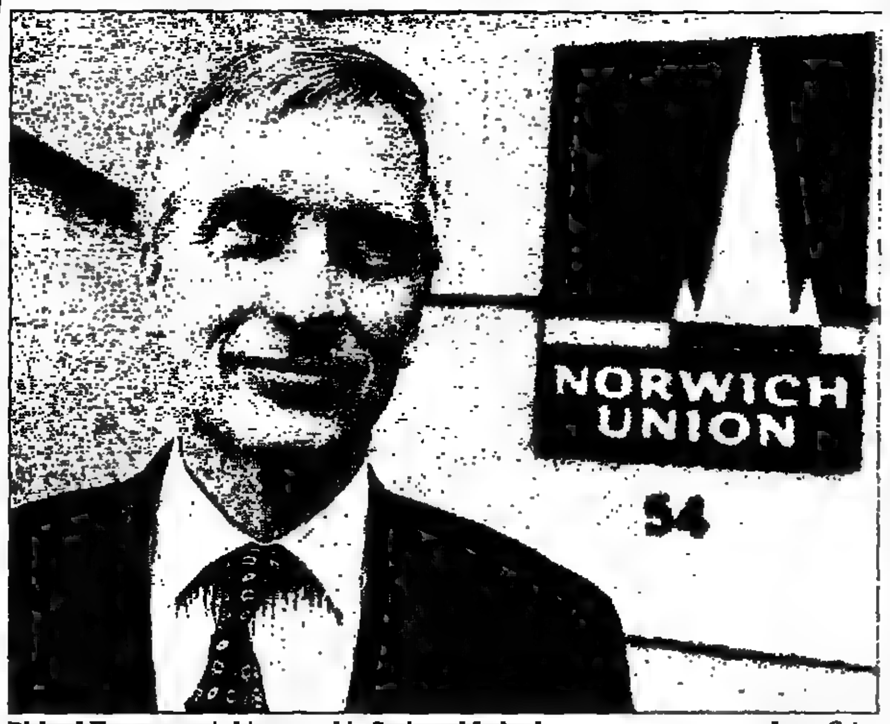
There were also strong performances from the UK life and pensions business and from international markets.

Mr Harvey said margins in UK life and pensions had come under significant pressure, more than offsetting volume gains, and market growth was slowing along with consumer confidence.

But he suggested the pain might deter further margin erosion: "We might have reached the point where people are realising that it's pretty hot in this kitchen, and there's little point in cramming through the door."

The group is responding to the pressures with plans to extend its mortgage product range and deposit-taking activities, although it is not yet seeking a banking licence. It also plans to convert its unit trusts to open-ended investment companies, following similar moves by other groups.

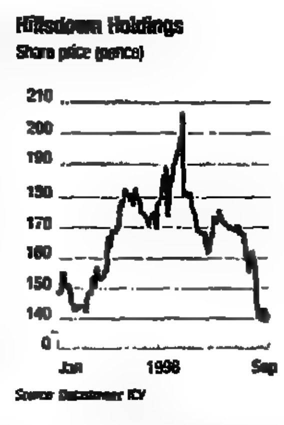
The interim dividend was 4.25p, against a notional 3.87p. Earnings per share were 17.5p, against 11.9p for the first 24 weeks of last year.



Richard Harvey: wanted to expand in Spain and Ireland — Jason Orton

# COMMENT

## Hillsdown Holdings




Back in May, during a flirtation with Unigate, Hillsdown's directors could boast that their break-up plans had added £400m ($660m) to the group's market value. But Unigate backed off and the falling stock market has hit valuations. This has pushed Hillsdown shares back down to their early February level. If only George Greener, the previous Hillsdown chief executive, had not eschewed the "fashion for focus", Hillsdown might have joined Dalgety in breaking up during the bull market.

But at least the present management has the stomach to see its plans through rather than go out on a low, which may well be Booker's fate. The two businesses being floated off – Fairview, the housebuilder, and Terranova in chilled foods – will probably be worth nearer £500m than the once hoped-for £600m.

But this assumes a multiple of only 8-9 times for the former and little bid premium for the latter. Disposals should still realise £400m-£500m, which means the current price is allowing less than £500m for core Hillsdown – a grocery supplier with sales of about £1bn – and the ailing poultry business (net assets above £200m). Unigate may have balked at paying 217p a share for the arduous dismemberment and turnround task, but at 141p shareholders should grin and bear it.

## Norwich Union

If a company keeps being gossiped about as a bid target, it pays to produce results that would grace any defence document. As Norwich Union's 18 per cent growth in new life business was already known, the pleasant surprise lay on the non-life side. To have pushed up general insurance profits by 11 per cent, excluding flood costs, was a considerable achievement at a weak point in the underwriting cycle. Demutualisation has clearly led to a more disciplined approach.

While shareholders must hope for further efficiency gains,the easiest ones must have been made. And it is a concern that life and pensions margins are being squeezed as more competitors pile into the market.

This looks like a recipe for slower profits growth – although many companies would kill for 10 per cent this year. Any weakness would give a predator a chance to pounce. That and the defensive quality of life earnings provide good support for the shares at about 1½ times net asset value.

# BBA mulls over next 'step change' move

By Andrew Edgecliffe-Johnson

BBA, the engineer which spans brake pads, business jet servicing and babies' nappies, is considering its next "step change" move to reshape the group. Roberto Quarta, chief executive, said it may turn to shareholders for the first time in five years to fund such a deal.

Mr Quarta, who joined BBA in 1993, said that the disposals, mid-sized acquisitions and investment programme since his arrival had positioned the group for "steady but not flashy underlying growth," which would accelerate from the second half of this year.

He added, however: "There will need to be, and there will be, a step change in BBA, because we do not believe in the *status quo*." For any large acquisition, he said: "Obviously, we will have to go to the shareholders."

His comments came as BBA reported pre-tax profits up from £78.3m to £83.7m ($138.1m) for the six months to June 30.

Growth in profits before exceptional items was 4 per cent, despite a £2.3m impact from currency translation, and turnover from continuing operations rose 7 per cent to £600m.

Mr Quarta, who has been frustrated in some previous attempts at large acquisitions, hinted at possible activity in its friction materials division, which makes brake pads and is the smallest of its divisions. He said BBA was looking at the options of selling its friction business or of negotiating "a strategic merger to create value".

BBA is one of the world's largest friction materials manufacturers, alongside Allied Signal, the US conglomerate, and Federal-Mogul, the acquisitive US car parts group.

Mr Quarta added that BBA looked at ITT Industries' friction business when the US company sold its brake division to Continental of Germany, but: "It would not have been the right thing to do."

BBA is also looking at deals "beyond the obvious" for its aviation and non-woven business.

It is close to announcing further deals for at least two divisions in Latin America, which is the world's second largest business aviation market, and is considering investing in a greenfield site in Asia for its non-woven materials division.

Mr Quarta sought to reassure investors that BBA would be less prone to an economic downturn than many engineers, saying: "We believe that our financial strength, our low exposure to those markets experiencing difficulties, and our refocused product portfolio leave us strongly positioned to continue our growth."

# Williams on track with cost savings

By Susanna Voyle

Williams, the security and fire protection group, yesterday said it was on track to pull the promised £40m ($66m) of costs savings from its acquisition of Chubb.

Announcing interim pre-tax profits before exceptionals up 10.4 per cent at £130.4m, Roger Carr, chief executive, said the first half had laid a firm foundation for delivering on the commitments made at the time of the Chubb acquisition in February last year.

Mr Carr said the refocusing of Williams through the shedding of the remaining home improvements businesses would continue. However, he admitted that the planned sale of Williams's US paints businesses would probably take longer than planned because of destabilised world markets.

The businesses have been shielded from the worst of the troubles in the US paints market because they are locally based and did not sell to national chains.

"In the current market we might see opportunistic offers, and we don't think that would be right," he said. "We want to achieve the rewards that they are worth. I am very happy to continue managing the businesses until we find the right bidder."

# Hillsdown break up will begin next month

By John Willman,
Consumer Industries Editor

The break up of Hillsdown Holdings, the diversified conglomerate, will start next month with the flotation of Fairview Holdings, the housebuilder, and Terranova, the chilled foods subsidiary.

The demerger proposals – sent out yesterday – will be put to the vote at a shareholders' meeting on October 2, with dealings in the shares starting on October 5. Shareholders will get one share in each of the two new companies and two shares in the rump Hillsdown company for every four existing shares.

The disposals of most of Hillsdown's other non-core operations – furniture, wines and spirits, potatoes, continental bakeries and the Ross Breeders part of its poultry business – are expected to be completed by the end of the year. A cash payment to shareholders is likely to follow soon after.

Analysts expect the disposals to bring about £600m ($990m) or more after costs. Some £200m of this will be used to reduce the rump of Hillsdown's borrowings of £350m – Fairview and Terranova will be floated free of debt – leaving a cash payment of under 50p a share.

Keith Buchanan, finance director, said the cost of the restructuring programme – including about £20m of tax charges – would be "significantly under" analysts' estimates of £50m.

However, part of the cash distribution may be delayed until the rest of the poultry business can be sold. Its disposal has been put on hold following a drop in profit for the first half of 1998 from £18m to £5m – hit by a flood of cheap imports attracted by the strength of sterling.

Michael Teacher, chief executive, said all the other disposals were progressing well and likely to meet expectations on price. The shares rose 2p to 141p.

Fairview, which specialises in lower-cost homes on "brown-field" sites inside the M25, made £42.7m profit in 1997 on turnover of £163.1m.

Terranova takes in Hillsdown's chilled foods division and the Buxted Foods poultry products business, which together made £26.8m profit on turnover of £429.2m in 1997.

After all the disposals, the rump Hillsdown group will be left with four grocery divisions: preserves and pickles, canning, biscuits and beverages.

Pre-tax profit for the unrestructured Hillsdown for the six months to June 30 fell from £56.9m to £52.1m on turnover down 12.5 per cent to £1.33bn. Earnings per share fell from 5.8p to 5.2p.

LOUISE KEHOE
**IN SAN FRANCISCO**
**EAGLE EYE**

# Ruled out of e-commerce race

While US business moves ahead with electronic sales, European rivals are bogged down with calls for international regulations

"Europe is six months behind" has become a truism in the US IT industry. Whether the topic is the adoption of PCs, sales of a new piece of software, or the internet, Europe is generally said to be trailing.

Now comes a report from Andersen Consulting that points to huge differences between US and European attitudes toward electronic commerce. Worryingly, the consultants report that although 82 per cent of the 300 European executives interviewed recognise the strategic importance of e-commerce, only 39 per cent are doing anything about it.

What is more, the reason or excuse most often given for hesitancy by the European executives was the lack of a "framework for commercial regulation" for e-commerce. More than 80 per cent wanted governments to create a common "international framework" of regulations. So, it would seem that we have US industrialists determined to keep government regulation out of e-commerce, and European businesses looking to governments to create rules. The contrast could hardly be more extreme.

It is easy to say that Europeans should move swiftly to implement e-commerce if they are not to lose out. Andersen warns that Europe risks being stuck in an "economic cul-de-sac" if it fails to move ahead quickly with American-style e-commerce.

The point being missed, on both sides of the Atlantic, is that e-commerce is not a distinct marketplace in itself. Rather, internet technology has created new tools that businesses can use, if they choose, to broaden their markets. These tools will be adopted in ways and at the various paces that reflect local attitudes to business growth.

For sure, e-commerce will bring big changes, creating opportunities for some and threats to others.It may affect commerce in ways akin to the discovery of new trade routes or the invention of faster modes of transportation – broadening trade horizons and creating "global" markets.

But this does not necessarily mean that we need to create new sets of rules, or abandon those of the past. Much as American high technology business leaders might like to think otherwise, the internet seems unlikely to remain free of government regulation, and nor should it. The rules that apply to conventional business activities should not be suspended just because a transaction is completed electronically.

On the other hand, if Europeans are looking to their governments and the European Union to make e-commerce as cosy as doing business in their own back yards, they will wait in vain. If they look to governments to create regulations that might hold back the competitive challenges that e-commerce could create, they might as well seek speed limits to suit the horse and cart.

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As if more proof were needed for urgent changes to the way businesses use electronic mail and message groups, the latest ripple in the Microsoft antitrust battle is a case in point.

Microsoft has subpoenaed electronic records of two internal message groups from Netscape Communications. These "venting" groups were set up by employees as a way to let off steam and complain about anything from the cafeteria cabbage to the size of the car park. As might be expected, there were also messages raising questions about the intellectual capacity of certain managers and pointing out dire errors in product design and marketing, at least from the perspective of some young and outspoken employees.

Now these "family squabbles" may be made public in what Netscape claims is an effort by Microsoft to discredit its internet browser rival. News of the subpoena sent a cold shiver through the veins of many a Silicon Valley company. How would your internal computer messages play in a public courtroom? Even where such official electronic forums for gripes do not exist, we all know that similar messages are sent among colleagues. Perhaps it is time to hit the "delete" key, before somebody suggests your e-mail is material evidence.

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*Creating the Digital Future: The secrets of consistent innovation at Intel* (Free Press, ISBN 0-684-83988) may not tell many secrets, but this new book by Albert Yu, Intel senior vice-president in charge of the company's microprocessor products, is nevertheless enlightening.

It might better have been entitled "Intel speed" because it is an account of how the company has driven advances in chip technology at breakneck pace for more than two decades. This is not a "tell all" book; neither is it one of those tomes that purport to provide a formula for business success. Rather, it is a first-hand account of the development of one of the most important technologies of our age.

Many authors have written about the legend; the invention of the microprocessor and its early years. Mr Yu, who joined Intel 22 years ago, provides an up-to-date account of the "blood, sweat and tears" behind Intel's products. Remember the 432? Only close watchers of Intel will remember this microprocessor chip, a "new generation" 32-bit microprocessor that was a dismal failure in the marketplace. The next transition, to 64-bit microprocessors, will be much smoother, Mr Yu promises, because the new devices will be fully compatible with today's 32-bit *Pentium chips*.

For how long can Intel continue to race ahead? The company's biggest challenge is managing complexity, Mr Yu says. He has hundreds of researchers focused on the problems of validating and testing chips that incorporate tens of millions of transistors. In the longer term, the silicon chip may be displaced by a "bio chip" or some other very different technology. "Incumbent market leaders are at a disadvantage" when technology breakthroughs are made, Mr Yu admits, but he has yet to find a new technology that is advancing at Intel speed.

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We live and learn. In a recent column I reviewed *Burn Rate: how I survived the gold rush years on the internet* by Michael Wolff. Many UK readers sent e-mails complaining that they had been unable to purchase this book in local stores. It turns out that it was not, at that time, available in the UK, so I must apologise for the unintended tease.

However, e-commerce comes to the rescue. Amazon (*www.amazon.com*) will ship books anywhere in the world. Also, I have learned that the sure fire way to find a book in online book stores is to search under the *international standard book* number (ISBN). *Burn Rate* is published by Simon & Schuster and its ISBN number is 0-684-84881-3.

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**INTERVIEW** CAROL BARTZ

# Taking design to the people

**Geoff Nairn** on how the leading provider of computer-aided design software for PCs is looking beyond office users for clients

Empires rise and fall in the software industry but Carol Bartz, chairman and chief executive of Autodesk, clearly believes her company has found the secret to eternal life.

AutoCad is the name of the elixir that for 16 years has kept Autodesk at the top of the industry, selling computer-aided design (Cad) software for use on standard PCs. It has made Autodesk the world's fourth-largest PC software company, with revenues of $617m in fiscal year 1998.

The Cad software industry is worth $6bn and splits into several segments: high-end packages for Unix workstations, the traditional roots of the industry; a new, fast-growing market in software for workstations based on the Windows NT operating system; and mid-priced packages such as AutoCad that run on desktop PCs.

The AutoCad program has sold more than 1.8m copies, making Autodesk a household name with architects and engineers. Outside its traditional market, however, the US company is not so well known.

"It is sometimes hard to imagine we are a large software company because our products are not sitting on everyone's desktop," says Ms Bartz, who has run the company since 1992.

She previously spent nine years climbing the corporate ladder at Sun Microsystems, the workstation company, and prefers the specialised world of Cad software to the computer business. "I really like the software business as hardware has become more of a commodity item," she says.

Autodesk has more than 3m customers but it lacks the visibility of other big software vendors because its programs have traditionally been hidden away in drawing offices and their use limited to a handful of trained engineers, architects or designers.

Ms Bartz would like to raise the profile of design and with it that of Autodesk. "When we go out and talk to designers we discover just how much depends on our products," she says.

She gives the example of Volkswagen's restyled Beetle car. "Its design is attracting not just people's attention but also real customers." Competition used to be based on price but today the differentiator is quality and tomorrow it will be design, she says, paraphrasing the management guru Tom Peters.

AutoCad accounts for 70 per cent of Autodesk's revenues and the latest incarnation, Release 14, has been well received – in contrast to its much-criticised predecessor, Release 13.

But storm clouds are gathering. One is a US Federal Trade Commission investigation into Autodesk (see below). Ms Bartz accepts that AutoCad is the leading Cad product in certain market segments – the architectural, engineering and construction (AEC) market, for example – but she says Autodesk does not hold sufficient market power to trigger any antitrust concerns.

"There are a lot of different Cad markets, but it has shrunk down to the assumption that you can design the whole world on AutoCad software," she complains.

**'It is hard to imagine we are a large software company because our products are not sitting on everyone's desktop'**

Aside from the FTC investigation, Autodesk faces a problem common to other Cad vendors, namely the growing maturity of the market. "The argument for design and manufacturing firms to adopt Cad technology has been won," says Frost & Sullivan in a recent study on the Cad market. That means those users most likely to need a Cad program probably already have one.

To get new revenues, Cad vendors must encourage customers to upgrade to the latest version of their software or switch from a competing Cad system. Such "knockouts" are few and far between, however, particularly in the high-end Unix market.

"Large manufacturers have invested millions of dollars in Unix systems and will not be replacing them without major justification," says Frost & Sullivan.

As its traditional market matures, Autodesk is looking to stimulate new uses for its software that go beyond that of simple drafting tool. A string of acquistions in recent years has helped reduce the dependence on AutoCad and taken the company into areas such as low-cost home design software for consumers or more specialised products for the AEC sector.

*Autodesk is embracing the* internet and object-oriented technology – which allows large complex programs to be assembled from manageable chunks of code called "objects" – to achieve what Ms Bartz calls "pervasive design".

In her vision, designers in different locations collaborate using the internet while Cad data is linked to other information and stored in intelligent models, built using object technology, that can be accessed by non-engineers.

Using the object models in AutoCad, UK retailer Safeway can redesign a store layout in three hours instead of more than a day, she claims. AutoCad 15, due next year, will take this idea further.

Another new area for Autodesk is geographic information systems (GIS) or digital maps. By double-clicking on a screen-based map, users can "drill down" and get information over the internet or corporate intranets. "Maps and design information go hand in hand and we are coming on fast in GIS," says Ms Bartz.

Autodesk all but invented the PC Cad market in the 1980s and over the years has managed to keep a tight grip on its customers, thanks partly to its unrivalled network of 4,000 resellers and 2,600 developers who customise AutoCad for special needs. Many companies have sought to usurp Autodesk in the PC Cad arena – the current challenger is Bentley with its MicroStation product – but none has yet succeeded.

"Our competition is not other Cad companies, it is the pen and paper," says Ms Bartz – a reference to the challenge of taking Cad beyond the design office.

Carol Bartz: 'Our competition is the pen and paper'

ANTITRUST INVESTIGATION

## Battle joined over standard

The antitrust battles of Microsoft and Intel grab the headlines, but a smaller skirmish is being fought in the Cad industry over Autodesk's business practices, which are being investigated by the US Federal Trade Commission, *writes Geoff Nairn.*

Autodesk's AutoCad product has become a standard design tool and so other programs hoping to open a chink in the Cad market must be able to read AutoCad files. However, Autodesk jealously protects the *details of the proprietary file* format used by AutoCad to store design information – the dimensions and tolerance of a hole, for example.

This file format, known as DWG, has become standard, and government contracts often require design data to be stored in DWG.

Rival programs are thus forced to translate data to and from the DWG format, which can cause errors to creep into the design.

Visio, a rival vendor, recently unveiled a $349 (£210) Cad program that claims to overcome these *translation errors because it* also uses DWG as its "native" file format, thereby directly challenging AutoCad, which costs more than $4,000, or $500 in its cut-down version, AutoCad LT.

Visio has also created the OpenDWG Alliance to press *Autodesk to "open" its DWG* standard to competitors and allow data stored in DWG format to be easily accessed by any product – not just Autodesk's.

The group's 20 founding members include Cad vendors such as Intergraph, Parametric Technology and SolidWorks. Autodesk is not a member. The alliance has published its own documentation on DWG on the web and released a "toolkit" to access DWG files.

Autodesk claims to be unimpressed by these moves to undermine its proprietary *standard*. "I am not paying them any attention," says Carol Bartz, chairman and chief executive. "The file format is the guts of our engineering and they would like to give away 15 years of engineering for free."

صكرا من الاصل



# EURO PRICES

## EQUITIES

# European rally gathers pace

**EUROPEAN OVERVIEW**

By Philip Coggan, Markets Editor

The rally in European bourses which began on Friday gathered pace yesterday as Wall Street returned from the holiday weekend in a very bullish mood.

The Dow Jones Industrial Average gained 300 points in early trading, and although this represented in part a catch-up from Asia and Europe's gains on Monday, the sheer scale of the rise gave Europe a further lift.

The UK was left out of the market's rise and, as a consequence, there were divergent trends in the three main European indices.

The FTSE Ebloc 100 index, which focuses on the single currency countries, was easily the strongest, gaining 25.29 or 2.8 per cent to 937.66.

The FTSE Eurotop 100 and 300 indices, which contain significant UK weightings, were much less buoyant. The 100 index rose 29.41 or 1.2 per cent to 2,585.24 and the 300 was up 17.69 or 1.6 per cent to 1,118.32.

The best performing sector of the day was information technology, which rose 5.3 per cent. Shares in SAP, the German software group, gained Ecu 25.1 to Ecu 550.64 as US high-tech stocks rebounded.

The engineering sector jumped 3.4 per cent with the help of a strong performance from Man, the German machinery and truck maker, which unveiled profits well ahead of expectations. Man's shares moved up Ecu 29.4 to Ecu 274.96.

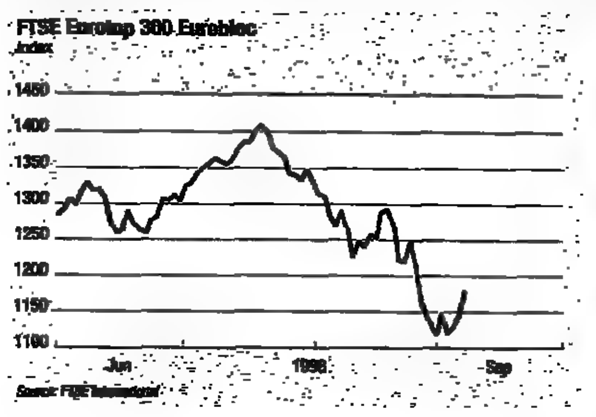
Utilities, one of the sectors which held up well during the correction, underperformed as investors sought out some of the market's more glamorous areas.

Mike Young, the European strategist at Goldman Sachs, has reduced his earnings forecasts by 2 percentage points for both 1998 and 1999, "primarily reflecting the prospect of higher provisioning for the banking sector in the present year, and weaker growth in the broader global economy for 1999".

However, that still leaves Goldman forecasting that earnings will grow by 11 per cent in both this year and next, and predicting that European stock markets will rise by 10-15 per cent over the next 12 months.

Goldman recommends that investors should be overweight Euroland markets and underweight the UK and Switzerland.

**FTSE Eurotop 300 Eurobloc**




Source: FT Information

**THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%**

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Oct | | 95.840 | - | | | 0 | 0 |
| Dec | 96.300 | 96.290 | - | 96.300 | 96.280 | 481 | 8804 |
| Mar | 96.440 | 96.450 | -0.010 | 96.440 | 96.440 | 1 | 5087 |
| Jun | | 96.410 | -0.015 | | | 0 | 2071 |

**THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | |

**FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point**

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 2560.0 | 2600.0 | +46.9 | 2604.0 | 2560.0 | 189 | 2792 |
| Dec | 2578.0 | 2622.5 | +48.5 | 2590.0 | 2578.0 | 22 | 2306 |
| Mar | | 2632.0 | +48.5 | | | 0 | 117 |

**EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point**

| | |
|---|---|
| [illegible] | |

## OTHER INDICES

| | Sep 8 | Sep 7 | Sep 4 | 1998 High | 1998 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| DJ Stoxx 50 | [illegible] | | | | | | |
| DJ Euro Stx 50 | [illegible] | | | | | | |
| MSCI Europe | [illegible] | | | | | | |

Source: [illegible]

## FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

| September 08 National & Regional Markets | Ecu Index | Day's % | change points | Yield gross % | xd adj ytd | Total retn (Ecu) |
|---|---|---|---|---|---|---|
| FTSE Eurotop 300 | 1118.32 | +1.61 | +17.69 | 2.32 | 22.24 | 1147.97 |
| FTSE Eurotop 100 | 2585.24 | +1.15 | +29.41 | 2.50 | 32.89 | 923.93 |
| FTSE Ebloc 100 | 937.66 | +2.77 | +25.29 | 2.15 | 13.37 | 949.98 |
| **FTSE Eurotop 300 Regions** | | | | | | |
| Eurobloc | 1177.97 | +2.81 | +32.20 | 2.14 | 19.78 | 1201.14 |
| UK | 1014.71 | -0.86 | -8.96 | 3.19 | 28.84 | 1058.40 |
| Europe Ex-Eurobloc | 1089.32 | +0.37 | +3.97 | 2.82 | 23.66 | 1102.53 |
| Europe Ex-UK | 1177.84 | +2.74 | +31.36 | 2.29 | 18.83 | 1198.09 |
| **FTSE Eurotop Industry Sectors** | | | | | | |
| RESOURCES | 855.84 | -0.04 | -0.36 | 3.36 | 21.81 | 886.92 |
| Extractive Industries | 693.98 | -2.12 | -15.05 | 4.16 | 0.00 | 693.98 |
| Oil, Integrated | 830.46 | +0.05 | +0.44 | 3.31 | 15.03 | 843.63 |
| Oil, Exploration & Prod | 588.04 | -1.46 | -8.69 | 5.77 | 0.00 | 588.04 |
| GENERAL INDUSTRIES | 1050.74 | +2.49 | +25.49 | 2.66 | 19.53 | 1070.99 |
| Construction | 932.82 | +2.26 | +20.59 | 2.72 | 11.06 | 943.47 |
| Building Matls & Merchs | 848.41 | +1.02 | +8.56 | 3.10 | 8.05 | 854.73 |
| Chemicals | 845.25 | +1.53 | +12.75 | 2.86 | 16.87 | 869.56 |
| Diversified Industrials | 926.13 | +0.19 | +1.72 | 2.36 | 17.48 | 944.05 |
| Electronic & Elect Equip | 922.43 | +3.74 | +33.28 | 1.83 | 4.89 | 926.89 |
| Engineering | 891.13 | +3.36 | +28.97 | 3.76 | 9.57 | 899.46 |
| Paper, Pckg & Printing | 791.09 | +2.57 | +19.84 | 2.97 | 1.21 | 792.09 |
| CONSUMER GOODS | 1117.48 | +0.50 | +5.58 | 1.84 | 15.04 | 1144.41 |
| Automobiles | 927.89 | +2.94 | +26.48 | 2.82 | 10.25 | 936.29 |
| Alcoholic Beverages | 841.28 | -1.11 | -9.45 | 2.58 | 5.82 | 846.32 |
| Food Producers | 924.43 | +0.47 | +4.36 | 1.74 | 9.37 | 932.83 |
| Household Goods & Texts | 1027.08 | +2.58 | +25.83 | 1.90 | 7.01 | 1033.74 |
| Healthcare | 886.93 | +1.24 | +10.83 | 1.36 | 9.52 | 895.55 |
| Pharmaceuticals | 992.89 | -0.16 | -1.58 | 1.31 | 4.27 | 997.23 |
| Tobacco | 1110.24 | +14.74 | +142.66 | 3.99 | 1.81 | 1112.33 |
| SERVICES | 1152.72 | +0.89 | +10.13 | 2.39 | 20.97 | 1162.66 |
| Distribution | 792.22 | +2.00 | +15.57 | 2.80 | 11.37 | 801.12 |
| Leisure & Hotels | 764.81 | +0.68 | +5.17 | 3.29 | 12.27 | 774.82 |
| Media | 959.55 | -0.19 | -1.82 | 2.43 | 9.63 | 968.69 |
| Retailers, Food | 1013.94 | +0.65 | +6.52 | 2.96 | 11.37 | 1025.69 |
| Retailers, General | 995.08 | +0.70 | +5.89 | 3.46 | 16.53 | 1011.27 |
| Telecommunications | 1062.22 | +1.14 | +11.97 | 1.96 | 13.02 | 1075.13 |
| Breweries, Pubs & Rests | 794.88 | +0.55 | +4.36 | 3.42 | 14.30 | 806.74 |
| Support Services | 925.31 | 0.00 | 0.00 | 1.62 | 6.84 | 931.78 |
| Transport | 906.79 | +0.05 | +0.45 | 2.68 | 11.76 | 918.96 |
| Information Technology | 1189.02 | +5.32 | +60.08 | 0.35 | 2.23 | 1191.73 |
| UTILITIES | 1371.40 | -0.01 | -0.18 | 3.22 | 53.32 | 1445.62 |
| Electricity | 1051.64 | -0.02 | -0.16 | 3.34 | 26.23 | 1079.72 |
| Gas Distribution | 1038.45 | +0.72 | +7.38 | 1.76 | 84.81 | 1134.08 |
| Water | 1015.61 | -1.25 | -12.83 | 5.86 | 38.72 | 1054.40 |
| FINANCIALS | 1185.49 | +2.93 | +33.72 | 2.78 | 28.40 | 1216.09 |
| Banks, Retail | 823.01 | +3.01 | +24.08 | 3.00 | 12.52 | 833.54 |
| Insurance | 910.69 | +3.37 | +29.67 | 1.92 | 11.45 | 921.52 |
| Life Insurance | 1085.20 | +2.38 | +25.28 | 1.56 | 9.10 | 1094.52 |
| Other Financial | 847.92 | +0.36 | +3.08 | 2.40 | 14.05 | 859.89 |
| Investment Companies | 908.52 | -1.94 | -17.00 | 2.83 | 20.66 | 923.47 |
| Property | 779.74 | -0.77 | -6.03 | 3.43 | 16.01 | 794.07 |



## FTSE EUROTOP 300

| Name | Price (Ecu) | Chge +or- | Mkt cap Ecu(bn) | Vol (m) | Yld |
|---|---|---|---|---|---|
| [illegible] | | | | | |

ALCOHOLIC BEVERAGES · AUTOMOBILES · BANKS RETAIL · BREWERIES, PUBS & RESTAURANTS · BUILDING MATERIALS & MERCHANTS · CHEMICALS · CONSTRUCTION · DISTRIBUTORS · DIVERSIFIED INDUSTRIALS · ELECTRICITY · ELECTRONIC & ELECTRICAL EQPT. · ENGINEERING · EXTRACTIVE INDUSTRIES · FOOD PRODUCERS · GAS DISTRIBUTION · HEALTH CARE · HOUSEHOLD GOODS & TEXTILES · INFORMATION TECHNOLOGY · INSURANCE · INVESTMENT COMPANIES · LEISURE & HOTELS · LIFE ASSURANCE · MEDIA · OIL, EXPLORATION & PRODUCTION · OIL, INTEGRATED · OTHER FINANCIAL · PAPER PACKAGING & PRINTING · PHARMACEUTICALS · PROPERTY · RETAILERS, FOOD · RETAILERS, GENERAL · SUPPORT SERVICES · TELECOMMUNICATIONS · TOBACCO · TRANSPORT · WATER

Notes: [illegible]

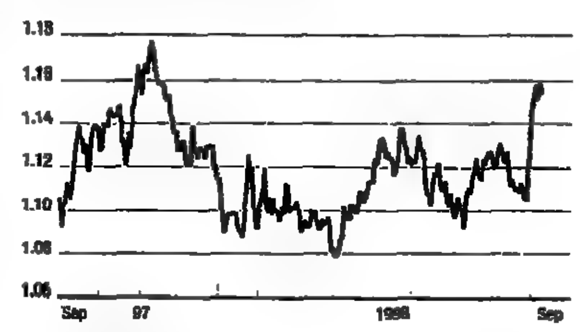
## CURRENCIES & MONEY

### FT SYNTHETIC EURO RATES

| Sep 08 | Currency code | Closing mid point | Change on day | Change on day% | Change on week | Change week % |
|---|---|---|---|---|---|---|
| **Europe** | | | | | | |
| Austria | ATS | 14.061278 | -0.0008 | +0.00 | +0.0018 | +0.01 |
| Belgium | BEF | 41.237047 | -0.0110 | +0.03 | +0.0189 | -0.05 |
| Czech Republic | CZK | 35.189024 | -0.2246 | -0.63 | -1.0018 | -2.77 |
| Denmark | DKK | 7.625040 | +0.0223 | +0.29 | +0.0190 | +0.25 |
| Finland | FIM | 6.078304 | -0.0011 | -0.02 | -0.0028 | -0.05 |
| France | FRF | 6.701598 | +0.0024 | +0.04 | +0.0007 | +0.01 |
| Germany | DEM | 1.998402 | +0.0007 | +0.01 | +0.0003 | +0.02 |
| Greece | GRD | 341.673437 | -1.9678 | -0.57 | -1.6505 | [illegible] |
| Hungary | HUF | 256.633585 | -0.4559 | [illegible] | +1.8377 | +0.72 |
| Ireland | IEP | 0.797234 | +0.0005 | +0.06 | +0.0021 | +0.27 |
| Italy | ITL | 1972.917636 | -1.0112 | -0.05 | -1.0188 | -0.05 |
| Luxembourg | LUF | 41.237047 | -0.0110 | -0.03 | +0.0189 | +0.05 |
| Netherlands | NLG | 2.255709 | -0.0005 | -0.02 | -0.0008 | -0.04 |
| Norway | NOK | 8.968018 | +0.0458 | +0.51 | +0.1346 | +1.52 |
| Poland | PLN | 4.162422 | -0.0456 | -1.08 | -0.0467 | -1.11 |
| Portugal | PTE | 204.544075 | -0.0282 | -0.01 | +0.0289 | +0.01 |
| Romania | ROL | 10453.730126 | -18.4403 | -0.18 | +230.8262 | +2.26 |
| Russia | RUB | 24.965287 | -1.0993 | -4.22 | +11.5442 | +86.01 |
| Slovakia | SKK | [illegible] | -0.1761 | -0.43 | +0.5396 | +1.34 |
| Spain | ESP | 169.634742 | -0.0109 | -0.01 | -0.0198 | -0.01 |
| Sweden | SEK | 9.190152 | +0.0056 | +0.06 | +0.0998 | +0.99 |
| Switzerland | CHF | 1.636884 | -0.0025 | -0.15 | -0.0077 | -0.47 |
| United Kingdom | GBP | 0.687378 | +0.0034 | +0.49 | +0.0166 | +2.44 |
| ECU | ECU | 1.015670 | -0.0000 | +0.00 | +0.0024 | +0.24 |
| **Americas** | | | | | | |
| Brazil | BRL | 1.359158 | -0.0055 | -0.40 | +0.0157 | +1.17 |
| Canada | CAD | 1.754941 | +0.0035 | +0.20 | -0.0017 | -0.10 |
| Mexico | MXN | 11.820401 | +0.0450 | +0.38 | +0.3810 | +3.33 |
| United States | USD | 1.108747 | -0.0027 | -0.23 | +0.0135 | +1.18 |
| **Pacific/Middle East/Africa** | | | | | | |
| Australia | AUD | 1.956760 | -0.0013 | -0.07 | -0.0080 | -0.41 |
| Hong Kong | HKD | 8.956691 | -0.0194 | -0.22 | +0.1079 | +1.22 |
| Japan | JPY | 152.882181 | +0.3407 | +0.22 | -2.3514 | [illegible] |
| Singapore | SGD | 1.955397 | -0.0060 | -0.30 | +0.0336 | +1.71 |
| South Africa | ZAR | 7.203539 | +0.0734 | +1.03 | -0.0151 | -0.21 |

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0940, IEP 0.0116, PTE 0.0155, ATS 0.0329, FIM 0.0187

**Synthetic Euro against the dollar**




Source: FTSE International

### EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

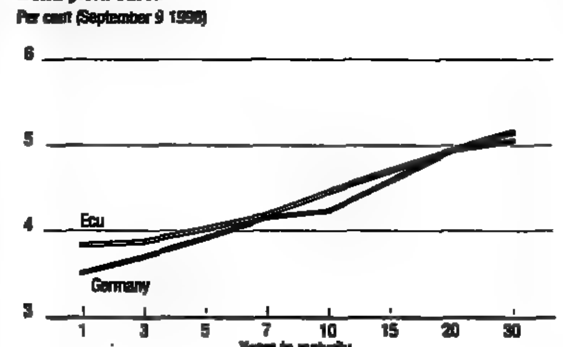
| Sep 08 | Fixed rate | Market rate | Diff fxd v mkt% | Week ago % | Forward rate | Forward int. rate | Diff int rate v DEM |
|---|---|---|---|---|---|---|---|
| Austria | 7.03552 | 7.0363 | +0.01 | +0.01 | 7.006 | 3.6 | +0.08 |
| Belgium | 20.6255 | 20.635 | +0.05 | +0.01 | 20.6321 | 3.56 | +0.03 |
| France | 3.35386 | 3.3535 | -0.01 | -0.01 | [illegible] | 3.55 | +0.03 |
| Finland | 3.04001 | 3.0416 | +0.05 | +0.11 | [illegible] | 3.54 | +0.02 |
| Ireland | 0.402676 | 0.399 | -0.91 | -1.17 | 0.4015 | 5.54 | +2.02 |
| Italy | 990.002 | 987.2477 | [illegible] | -0.21 | 991.3935 | 4.87 | +1.35 |
| Luxembourg | 20.6255 | 20.635 | +0.05 | +0.01 | 20.6321 | 3.55 | +0.03 |
| Netherlands | 1.12674 | 1.1285 | +0.16 | +0.21 | 1.1281 | 3.41 | -0.11 |
| Portugal | 102.505 | 102.3538 | -0.15 | -0.15 | 102.5671 | 4.17 | +0.65 |
| Spain | 85.0722 | 84.8852 | -0.22 | [illegible] | 85.0803 | 4.26 | +0.74 |
| Germany | 1 | | +0.00 | +0.00 | | 3.52 | +0.00 |

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3, forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

## BONDS

**Bond yield curve**

Per cent (September 9 1998)




Source: Interactive Data/FT Information

### GOVERNMENT BOND SPREADS vs ECU

| Sep 08 | 2 yrs | 5 yrs | 7 yrs | 10 yrs | 20 yrs | 30 yrs |
|---|---|---|---|---|---|---|
| **"Ins"** | | | | | | |
| Austria | -0.07 | +0.03 | +0.15 | +0.06 | +0.07 | +0.16 |
| Belgium | -0.09 | +0.02 | +0.12 | +0.07 | +0.11 | +0.12 |
| Finland | -0.11 | +0.16 | +0.20 | +0.13 | -0.35 | -0.56 |
| France | -0.17 | -0.09 | -0.08 | -0.07 | -0.05 | -0.07 |
| Germany | -0.23 | -0.11 | -0.09 | -0.23 | +0.00 | -0.10 |
| Ireland | +0.54 | -0.02 | +0.06 | +0.15 | +0.22 | +0.57 |
| Italy | +0.28 | +0.25 | +0.27 | +0.25 | [illegible] | +0.27 |
| Luxembourg | -0.09 | +0.02 | +0.12 | +0.07 | +0.11 | +0.12 |
| Netherlands | -0.14 | +0.01 | +0.03 | -0.07 | +0.01 | -0.04 |
| Portugal | +0.01 | +0.19 | +0.10 | +0.18 | +0.40 | [illegible] |
| Spain | -0.04 | +0.08 | +0.19 | +0.25 | +0.18 | +0.29 |
| **"Outs"** | | | | | | |
| Denmark | +0.61 | +0.52 | +0.57 | +0.34 | +0.21 | +0.58 |
| Greece | +8.23 | +5.37 | +4.76 | +3.73 | +2.79 | +2.58 |
| Sweden | [illegible] | +0.62 | +0.61 | +0.46 | +0.42 | +0.21 |
| UK | +2.48 | +1.61 | +1.34 | +0.77 | +0.35 | -0.09 |

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

### EUROZONE CORPORATE BONDS

| Sep 08 | Red date | Coupon | S & P Rating | Bid price | Bid yld | Day's chge yld | Mth's chge yld | Spread v Ecu |
|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | |

Source: Interactive Data/FT Information. London closing. [illegible]

### EUROZONE CREDIT SPREADS vs ECU

| Sep 08 | S & P rating | Red date | Coupon | Currency code | Spread | Spread wk ago | Spread mth ago |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |
| Mali Bk of Hungary | BBB– | 05/01 | 9.000 | ATS | +0.84 | +1.19 | +0.58 |
| [illegible] | BB+ | 11/02 | 5.625 | FRF | +9.20 | +9.77 | +6.14 |
| Argentina | BB | 04/08 | 8.125 | XEU | +7.73 | +7.80 | +3.21 |

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

# Prices fall back as equities rally

**GOVERNMENT BONDS**

By Jeremy Grant in London and Richard Tomkins in New York

Bond prices fell back again yesterday as equity markets staged another mini-rally, dispersing safe-haven worries and drawing funds back to stocks at the expense of fixed-income markets.

In the UK, gilts also suffered because of unexpected increases in industrial production and manufacturing output for July and performed worse than other core European markets.

A stronger start on Wall Street and resulting weakness in US Treasuries, dragged European bonds lower in the afternoon.

In Germany, the release of unemployment data had little effect on bunds, initially sent lower by strength in the DAX index, but by the close they had clawed back most of the day's losses on comments by a Bundesbank council member signalling no rise in key interest rates before the end of the year.

However, analysts were reluctant to speak of an end to the rally, which has seen yields fall to record levels.

"One would have to say this is just a correction. Out there in the real world you've had a contraction of credit and a weaker growth picture going forward. There are also some nagging concerns at the long end [of the yield curve] that the Federal Reserve may be thinking of easing," said Kit Juckes, head of bond and currency strategy at NatWest.

In the US, long-dated TREASURIES opened sharply lower after the three-day holiday weekend, but recovered some of their losses.

Short-dated bonds also opened lower, but started moving in the opposite direction to longer-dated issues, leading to a sharp steepening in the yield curve.

At midday, the 30-year bond was down $\frac{5}{32}$ to 102%, yielding 5.323 per cent, and the 10-year note was $\frac{1}{8}$ lower at 104$\frac{7}{32}$, yielding 5.023 per cent. In contrast, the two-year note was up $\frac{1}{32}$ to 100$\frac{1}{32}$, yielding 4.889 per cent.

The market was dominated by reactions to comments from Alan Greenspan, Federal Reserve chairman, at the weekend indicating the next move in US interest rates might be down.

In previous weeks, the price of the long bond had risen to record highs in the expectation that an easing of interest rates had become more likely. Traders attributed yesterday's decline to profit-taking on confirmation that this was the most likely scenario.

Treasuries also suffered from a movement of funds into equities in early trading but they regained some of their losses as stock prices eased back from the morning's highs.

In the UK, suggestions that had been building in the GILTS market that the Bank of England's monetary policy committee might cut key interest rates tomorrow were confounded by evidence showing UK manufacturing rose unexpectedly in July.

Gilts lost ground in tandem with short sterling contracts, with the December contract falling as low as 92.74 points. It is now pricing in a rate cut by the end of the year.

The December 10-year gilt future settled down 0.34 points at 112.28 in volume of 42,000 contracts traded.

However, Neil Parker, treasury economist at Royal Bank of Scotland, said the committee's focus had been on earnings and the services sector for months and that any sudden rise in manufacturing and industrial output was not likely to deflect the policy-makers from their current stance on interest rates.

"It's not the manufacturing sector the Bank's looking at," Mr Parker said.

GERMAN BUNDS regained most of the day's losses after the Bundesbank's Olaf Sievert said the central bank would maintain an "absolutely steady hand" this year.

The December 10-year bund future settled down 0.07 points at 111.90 in volume of 400,500 contracts traded in Frankfurt.

● Austria postponed a planned Sch10bn sale of five-year bonds yesterday, citing an unacceptably wide spread to the benchmark German bund, reports Reuters.

An official at Kontrollbank, which issues bonds on behalf of the BFA state financing agency, said that because the results of the auction of Austrian government bonds produced a considerably higher yield than lower-rated borrowers offer, it had decided not to proceed with the sale.

# LCH and ISMA to launch Coredeal

By Edward Luce, Capital Markets Editor

The London Clearing House and the International Securities Markets Association yesterday signed an agreement that will result in the first independent order entry dealing system for the international bond markets.

The system, known as Coredeal, is expected to be launched in mid-1999. It will allow users to trade leading benchmark eurobonds (both corporate and government) on a fully automated 24-hour screen-based system.

The LCH, which is also in merger talks with the London International Financial Futures and Options Exchange, will act as the central guarantor of Coredeal to minimise counterparty risk in the event of default by one of the users.

ISMA, the self-regulatory body for the international bond markets, hopes the system will become the leading marketplace for wholesale bond trading. It said Coredeal will allow for greater transparency in the market, complete anonymity for users and a reduction in transaction costs.

The move also fits in with the LCH's strategy of reducing its dependence on listed exchanges (in spite of merger talks with Liffe). The LCH has submitted a proposal to act as the clearer for the over-the-counter interest rate swaps market. The proposal, which has yet to be approved by the US regulators, would remove central counterparty risk from the private derivatives market.

David Hardy, chief executive, said LCH's participation in Coredeal formed part of its broader strategic expansion into new markets.

**HONG KONG EQUITIES** T+2 RULE FIRMED-UP

# Crackdown on settlement under fire

By Louise Lucas in Hong Kong

The crackdown in Hong Kong on delays in share settlement – part of the package of technical measures introduced by the government in its bid to stabilise the markets – has come under fire from industry practitioners.

Hong Kong share deals are supposed to settle on a T+2 basis, whereby shares are delivered within two days of the transaction being executed.

In practice, a blind eye has been turned to late delivery, creating a loophole for short sellers – those who sell stocks they do not own in expectation of being able to buy them later at a cheaper price.

It is this practice that the government is attempting to eliminate by forcing investors to buy shares whose sale is not effected within the two-day period. However, the move will also hit those who deliver late for innocent reasons, such as administrative errors or overseas bank holidays.

The latter problem has already been demonstrated: the firming up of the T+2 rule was brought in over the August bank holiday in London, and caught a number of fund managers short.

Many fund managers based in the territory rely on London securities' departments to confirm the deal with the broker that executed the transaction.

The securities' department must then alert the custodian who holds the shares; and that custodian then delivers the shares to the broker.

The chain, which frequently straddles time zones, creates plenty of room for faxes to go astray, staff to be on holiday or instructions to be missed.

Robert Conlon, chief investment officer with Guinness Flight Asia, said: "With a chain of people involved, all that's needed is for one person to go wrong," but he added that the industry should be able to cope, given that the smaller Taiwan market already operates on T+1.

Meanwhile, Hong Kong Securities Clearing, the territory's clearing house for share trades, has said it is unable to apply the T+2 rule to trades executed before September 1, when the firming up of enforcement was announced.

In a statement delivered to the financial affairs panel of the Legislative Council, or parliament, the clearing house said the forced buying-in of undelivered shares on the third morning after the transaction could result in serious liabilities.

HKSC said this is because short sellers would have been unlikely to pay the clearing house, and any subsequent claim – given the rules then in force – would have been rejected by its insurers.

"It is also contrary to the mission of Hong Kong Securities Clearing, which is to reduce risk in the Hong Kong securities market in relation to securities processing," it said.

# GECC makes $450m offering

**INTERNATIONAL BONDS**

By Vincent Boland

The corporate bond market is beginning to pick itself up off the floor after being mauled by Russia's financial crisis, as the mood among issuers and investors gradually improves.

The first sign of better sentiment emerged yesterday with a $450m, 10-year issue from General Electric Capital Corporation, the financing arm of the US engineering company.

GECC's is the first corporate bond to be launched since the current turmoil started.

Bankers at Paribas, lead manager, indicated that the issue, priced to yield 70 basis points over the corresponding US Treasury, would probably be reopened today after strong demand from blue-chip investors.

The issue was marketed to potential buyers on Friday and Monday, with good buying interest evident yesterday from Swiss institutions, and Belgian, German and UK investors.

"We wanted to be cautious with this issue and pragmatic in terms of size; it was important that this deal went well," one banker said.

"It was clear over the past week that there was a cautious improvement in sentiment. These spreads from high-quality names look attractive, and there is plenty of money from high-grade investors."

Based on the pattern of demand for the $450m on offer, he said it was "very likely" the issue would be increased today and that there was excess demand for the paper. "My best guess at the moment is $100m to $200m," he added.

In late trading the bonds had tightened by two basis points to 68 points over.

Bankers indicated that the pick-up in sentiment could see a reopening of the euro-denominated sector this week, but they warned that much of the pre-crisis investor base for corporate issues was still absent. Sovereign or multilateral issuers are still active, however, but only for small deals with a tight retail focus.

**New international bond issues**

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| GECC | 450 | 5.75 | 99.373R | Sep 2008 | 0.325R | +70(5⅝%May08) | Paribas |
| KfW International Finance(a) | 250 | 5.75 | 100.773R | Jan 2008 | 0.325R | +52(5⅝%May08) | JP Morgan Securities |
| GECC | 100 | 5.625 | 100.687 | Sep 2003 | 1.625 | - | Lehman Brothers |
| **STERLING** | | | | | | | |
| Cards(No 6)(b)‡ | 240 | (b1) | 99.916R | Sep 2003 | 0.175R | - | Barclays Capital |
| European Inv'ment Bank(c) | 100 | 7.625 | 111.759 | Dec 2007 | 0.325 | +52(7¼Dec07) | JP Morgan Securities |
| KfW Intl Finance(d) | 75 | 7.25 | 108.556R | Jul 2007 | 0.325R | +60(7¼Dec07) | Barclays Capital |
| **YEN** | | | | | | | |
| Oest Kontrollbank(f)* | 14.5bn | 4.00# | 100.00 | Oct 1999 | 1.25 | - | Nikko Europe |
| **EUROS(e)** | | | | | | | |
| Kingdom of Denmark(g) | 113 | 3.70 | 100.98 | Sep 2001 | 1.00 | - | Nikko Europe |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $1bn. Plus 243 days accrued. b) Secured on credit card receivables originated by MBNA Intl Bank. Legal maturity: 15/11/05. b1) 3-mth Libor +12bp. c) Fungible with £600m. Plus 278 days accrued. d) Fungible with £250m. Plus 65 days accrued. e) Payments in Ecu prior to Emu. f) Redeemed in Y unless $/Y falls to 114.95. g) Fungible with E98m. Plus 0.288% accrued.

## WORLD BOND PRICES

### BENCHMARK GOVERNMENT BONDS

| Sep 8 | Red Date | Coupon | Bid Price | Bid Yield | Day chg yield | Wk chg yield | Month chg yld | Year chg yld |
|---|---|---|---|---|---|---|---|---|
| Australia | 01/01 | 8.750 | 107.8069 | 5.10 | +0.05 | -0.39 | -0.08 | +0.11 |
| | 08/08 | 8.750 | 124.7743 | 5.48 | +0.05 | -0.39 | -0.10 | -0.89 |
| Austria | 07/00 | 5.875 | 103.7600 | 3.72 | -0.02 | -0.06 | -0.30 | -0.54 |
| | 01/08 | 5.000 | 103.8800 | 4.48 | -0.02 | -0.06 | -0.24 | -1.22 |
| Belgium | 01/00 | 4.000 | 100.4900 | 3.62 | -0.05 | -0.07 | -0.30 | -0.40 |
| | 03/08 | 5.750 | 109.2700 | 4.53 | +0.01 | - | -0.25 | -1.22 |
| Canada | 06/00 | 5.000 | 99.2600 | 5.52 | -0.01 | -0.04 | +0.16 | +1.44 |
| | 06/08 | 6.000 | 103.7800 | 5.49 | +0.01 | -0.02 | -0.07 | -0.58 |
| Denmark | 11/00 | 9.000 | 109.1900 | 4.44 | -0.03 | +0.13 | +0.07 | -0.14 |
| | 11/07 | 7.000 | 115.9700 | 4.80 | -0.02 | +0.08 | -0.09 | -1.44 |
| Finland | 01/99 | 11.000 | 102.4700 | 3.27 | +0.03 | +0.01 | -0.27 | -0.58 |
| | 04/08 | 6.000 | 110.3340 | 4.64 | +0.04 | +0.03 | -0.09 | -1.28 |
| France | 01/00 | 4.000 | 100.5100 | 3.59 | -0.01 | +0.01 | -0.23 | -0.42 |
| | 04/05 | 7.500 | 119.5900 | 4.06 | +0.01 | -0.02 | -0.34 | -1.11 |
| | 04/08 | 5.250 | 106.6800 | 4.38 | +0.01 | -0.01 | -0.27 | -1.18 |
| | 04/29 | 5.500 | 106.0400 | 5.18 | - | -0.05 | -0.12 | -1.18 |
| Germany | 03/00 | 4.000 | 100.7300 | 3.48 | +0.01 | +0.07 | -0.26 | -0.42 |
| | 10/05 | 6.500 | 114.1300 | 4.15 | -0.01 | -0.08 | -0.34 | -1.13 |
| | 01/08 | 5.250 | 107.4700 | 4.26 | +0.01 | -0.02 | -0.32 | -1.41 |
| | 01/28 | 5.625 | 108.8500 | 5.06 | +0.01 | -0.08 | -0.12 | -1.28 |
| Ireland | 10/01 | 6.500 | 108.7700 | 4.13 | +0.02 | -0.13 | -0.36 | -1.95 |
| | 08/08 | 6.000 | 110.9000 | 4.61 | +0.01 | -0.08 | -0.24 | -1.88 |
| Italy | 04/01 | 4.500 | 101.1400 | 4.02 | +0.01 | -0.08 | -0.27 | -1.73 |
| | 05/03 | 4.750 | 102.2700 | 4.20 | +0.02 | -0.08 | -0.31 | -1.88 |
| | 05/08 | 5.000 | 102.7300 | 4.64 | +0.01 | -0.07 | -0.15 | -1.72 |
| | 11/27 | 6.500 | 116.9800 | 5.34 | +0.01 | -0.05 | -0.01 | -1.62 |
| Japan | 03/00 | 6.400 | 109.1000 | 0.37 | - | -0.01 | -0.09 | -0.13 |
| | 06/03 | 4.500 | 117.1900 | 0.81 | -0.01 | -0.08 | -0.13 | -0.73 |
| | 09/05 | 3.000 | 113.9400 | 1.08 | -0.02 | -0.06 | -0.17 | -0.95 |
| | 03/18 | 2.700 | 112.8100 | 1.90 | -0.01 | -0.02 | -0.21 | -0.90 |
| Netherlands | 05/00 | 9.000 | 108.5600 | 3.99 | -0.04 | +0.01 | -0.35 | -0.47 |
| | 07/08 | 5.250 | 106.7400 | 4.30 | +0.02 | +0.01 | -0.28 | -1.23 |
| New Zealand | 02/01 | 8.000 | 104.1547 | 6.08 | -0.16 | -0.42 | -0.41 | -1.09 |
| | 11/06 | 8.000 | 111.0603 | 6.25 | -0.03 | -0.15 | +0.08 | -0.88 |
| Norway | 01/99 | 9.000 | 100.3300 | 7.67 | +0.02 | +0.36 | +2.24 | +3.18 |
| | 01/07 | 6.750 | 107.7500 | 5.56 | +0.06 | -0.25 | +0.19 | -0.42 |
| Portugal | 03/00 | 5.375 | 102.3800 | 3.72 | -0.03 | -0.19 | -0.44 | -1.49 |
| | 06/05 | 5.375 | 105.5600 | 4.66 | +0.03 | -0.02 | -0.29 | -1.88 |
| Spain | 04/00 | 6.750 | 104.5700 | 3.70 | -0.04 | -0.08 | -0.36 | -1.31 |
| | 01/03 | 8.000 | 110.2400 | 4.63 | +0.02 | -0.07 | -0.18 | -1.83 |
| Sweden | 05/00 | 10.250 | 109.1780 | 4.30 | -0.02 | +0.04 | -0.03 | -0.52 |
| | 05/08 | 6.500 | 111.9970 | 4.80 | -0.01 | +0.11 | +0.03 | -1.83 |
| Switzerland | 03/08 | 5.000 | 104.9500 | 1.60 | -0.04 | -0.03 | -0.43 | -0.14 |
| | 06/07 | 4.500 | 113.0900 | 2.79 | -0.01 | +0.19 | -0.01 | -0.76 |
| UK | 11/01 | 7.000 | 102.6875 | 6.05 | +0.08 | - | -0.31 | -0.86 |
| | 12/03 | 6.500 | 104.0000 | 5.61 | +0.06 | - | -0.34 | -1.34 |
| | 12/07 | 7.250 | 113.6750 | 5.33 | +0.05 | -0.06 | -0.32 | -1.83 |
| | 12/28 | 6.000 | 114.3438 | 5.07 | +0.02 | -0.13 | -0.29 | -1.84 |
| US | 08/00 | 5.500 | 100.8054 | 5.08 | -0.03 | +0.06 | -0.36 | -0.94 |
| | 05/03 | 5.500 | 101.9805 | 5.02 | -0.01 | +0.03 | -0.38 | -1.30 |
| | 05/08 | 5.625 | 104.4329 | 5.04 | +0.03 | -0.01 | -0.36 | -1.29 |
| | 11/27 | 6.125 | 110.4215 | 5.41 | +0.05 | -0.01 | -0.21 | -1.28 |
| ECU | 07/00 | 4.000 | 100.3100 | 3.32 | +0.04 | +0.01 | -0.25 | -0.88 |
| | 04/08 | 5.250 | 106.2000 | 4.44 | +0.02 | - | -0.25 | -1.47 |

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

### 10 YEAR BENCHMARK SPREADS

| Sep 8 | Bid Yield | Spread vs Bunds | Spread vs T-Bonds | | Bid Yield | Spread vs Bunds | Spread vs T-Bonds |
|---|---|---|---|---|---|---|---|
| Australia | 5.49 | +1.25 | +0.45 | New Zealand | 6.25 | +2.01 | +1.21 |
| Austria | 4.56 | +0.31 | -0.49 | Norway | 5.53 | +1.29 | +0.49 |
| Belgium | 4.54 | +0.30 | -0.50 | Portugal | 4.65 | +0.41 | -0.39 |
| Canada | 5.49 | +1.25 | +0.45 | Spain | 4.70 | +0.46 | -0.34 |
| Denmark | 4.81 | +0.57 | -0.23 | Sweden | 4.92 | +0.68 | -0.12 |
| Finland | 4.60 | +0.36 | -0.44 | Switzerland | 2.97 | -1.27 | -2.07 |
| France | 4.40 | +0.16 | -0.64 | UK | 5.24 | +1.00 | +0.20 |
| Germany | 4.24 | - | -0.80 | US | 5.04 | +0.80 | - |
| Ireland | 4.62 | +0.38 | -0.42 | ECU | 4.47 | +0.23 | -0.57 |
| Italy | 4.72 | +0.48 | -0.32 | | | | |
| Japan | 1.33 | -2.91 | -3.71 | | | | |
| Netherlands | 4.40 | +0.16 | -0.64 | | | | |

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

### EMERGING MARKET BONDS

| Sep 8 | Red date | Coupon | S & P Rating | Bid price | Bid yield | Day's chge yld | Mth's chge yld | Sprd vs US |
|---|---|---|---|---|---|---|---|---|
| **EUROPE** | | | | | | | | |
| Croatia | 02/02 | 7.000 | BBB- | 94.6290 | 8.83 | -0.49 | +1.86 | +3.97 |
| [illegible] | | | | | | | | |

### BOND FUTURES AND OPTIONS

**France**

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 108.39 | 108.01 | -0.38 | 108.45 | 107.89 | 124,344 | 97,731 |
| Dec | 107.93 | 107.55 | -0.38 | 107.98 | 107.45 | 14,242 | 44,013 |

LONG TERM FRENCH BOND OPTIONS (MATIF)

| Strike Price | Calls Oct | Calls Nov | Calls Dec | Puts Oct | Puts Nov | Puts Dec |
|---|---|---|---|---|---|---|
| 103 | 4.93 | 4.93 | 4.96 | - | 0.03 | 0.07 |
| 104 | 3.93 | 3.96 | 4.01 | 0.01 | 0.05 | 0.11 |
| 105 | 2.94 | 3.02 | 3.10 | 0.02 | 0.11 | 0.19 |
| 106 | 1.98 | 2.13 | 2.27 | 0.04 | 0.21 | 0.36 |

Est. vol. total, Calls 1,230 Puts 6,666. Previous day's open int., Calls 24,343 Puts 40,277

**Germany**

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 112.16 | 111.76 | -0.19 | 112.16 | 111.64 | 223 | 9616 |
| Mar | | 110.43 | -0.19 | | | 0 | 0 |

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 112.65 | 112.51 | -0.17 | 112.84 | 112.41 | 42,797 | 274,481 |
| Dec | 112.03 | 111.90 | -0.07 | 112.14 | 111.50 | 400,574 | 384,239 |

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

| Strike Price | Calls Oct | Calls Nov | Calls Dec | Puts Oct | Puts Nov | Puts Dec |
|---|---|---|---|---|---|---|
| 11150 | 0.59 | 0.90 | 1.12 | 0.35 | 0.64 | 0.85 |
| 11200 | 0.34 | 0.65 | 0.87 | 0.58 | 0.89 | 1.11 |
| 11250 | 0.17 | 0.45 | 0.65 | 0.91 | 1.70 | 1.40 |

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 7,180 Puts 6490

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 107.78 | 107.81 | -0.10 | 107.78 | 107.58 | 17,380 | 126,687 |
| Dec | 107.42 | 107.43 | +0.06 | 107.50 | 107.21 | 145,074 | 133,927 |

**Italy**

[illegible]

**Spain**

[illegible]

**UK**

[illegible]

**US**

[illegible]

**Japan**

[illegible]

**Ecu**

ECU BOND FUTURES (MATIF) ECU100,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | - | 106.46 | -0.08 | - | - | 0 | 18 |

### US CORPORATE BONDS

| Sep 4 | Red date | Coupn | S & P Rating | Bid price | Bid yield | Day's chge yld | Mth's chge yld | Sprd v Govts |
|---|---|---|---|---|---|---|---|---|
| **UTILITIES** | | | | | | | | |
| Pac Bell | 07/02 | 7.25 | AA- | 104.9153 | 5.78 | -0.02 | -0.22 | +0.89 |
| NY Tel | 08/25 | 7.00 | A+ | 102.1995 | 6.81 | -0.03 | -0.18 | +1.53 |
| [illegible] | 05/06 | 8.00 | BBB | 112.7983 | [illegible] | -0.01 | -0.16 | +1.21 |
| **FINANCIALS** | | | | | | | | |
| GECC | 05/07 | 8.75 | AAA | 119.1473 | 5.80 | -0.01 | -0.20 | +0.89 |
| Banc One | 08/02 | 7.25 | A+ | 104.9008 | 5.82 | -0.01 | -0.24 | +0.93 |
| Media One | 01/07 | 7.30 | BBB | 105.8374 | 6.41 | -0.02 | -0.05 | +1.40 |
| **INDUSTRIALS** | | | | | | | | |
| WMX Tech | 04/99 | 6.25 | BBB+ | 100.1347 | 5.99 | +0.07 | -0.18 | +1.32 |
| Wal Mart | 05/02 | 6.75 | AA | 104.4739 | 5.39 | -0.01 | -0.43 | +0.50 |
| Dayton Hud | 06/21 | 9.70 | BBB+ | 134.5340 | 6.71 | -0.04 | +0.08 | +1.43 |
| **AGENCIES** | | | | | | | | |
| FHLMC | 04/07 | 7.14 | N/A | 110.5965 | 5.67 | -0.01 | -0.19 | +0.56 |
| SLMA | 03/00 | 7.50 | N/A | 103.1274 | 5.30 | -0.02 | -0.20 | +0.40 |
| FNMA | 02/18 | 8.95 | N/A | 136.7223 | 5.77 | -0.04 | -0.18 | +0.49 |
| FFCB | 08/06 | 8.95 | N/A | 121.1596 | 5.54 | -0.01 | -0.19 | +0.53 |
| **HIGH YIELD** | | | | | | | | |
| Stone Cont | 02/01 | 9.88 | B | 95.0000 | 0.00 | - | - | - |
| AK Stl | 12/01 | 9.13 | BB- | 99.5000 | 0.00 | - | - | - |
| Pacalta | 06/04 | 10.75 | B- | 92.0000 | 0.00 | - | - | - |

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

### US INTEREST RATES

| Latest | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| | | One month | - | Two year | 4.91 |
| Prime rate | 8½ | Two month | - | Three year | 4.82 |
| Broker loan rate | 7¼ | Three month | 4.86 | Five year | 4.91 |
| Fed.funds | 5⅝ | Six month | 4.98 | 10-year | 5.04 |
| Fed.funds at intervention | - | One year | 4.91 | 30-year | 5.33 |

### INTERNATIONAL BONDS

| Sep 8 | Red date | Coupon | S & P Rating | Bid price | Bid yld | Day's chge yld | Mth's chge yld | Spread v Govts |
|---|---|---|---|---|---|---|---|---|
| **US DOLLAR** | | | | | | | | |
| EIB | 02/07 | 5.750 | AAA | 108.9800 | 4.45 | - | -0.25 | +0.18 |
| Spain | 01/07 | 5.750 | AA | 108.9100 | 4.44 | -0.05 | -0.27 | +0.17 |
| [illegible] | 03/04 | 5.375 | A | 103.3700 | 4.66 | +0.01 | -0.25 | +0.63 |
| Finland FRN | 09/02 | 3.829 | AA | 100.5451 | 3.31 | - | [illegible] | -0.50 |
| **EURO FRF** | | | | | | | | |
| Austria | 01/04 | 5.500 | AAA | 106.6600 | 4.08 | -0.02 | -0.30 | +0.10 |
| Abbey Nat | 02/04 | 6.000 | AA | 108.6900 | 4.17 | -0.05 | -0.31 | +0.19 |
| Cred Foncier | 02/04 | 9.125 | A | 121.3000 | 4.60 | +0.05 | -0.10 | +0.62 |
| SCF FRN | 12/01 | 3.617 | AA- | 99.9699 | 3.84 | +0.01 | -0.28 | -0.13 |
| **EURO-LIRE** | | | | | | | | |
| EIB | 02/07 | 7.000 | AAA | 118.8000 | 4.55 | - | -0.20 | -0.06 |
| Abbey Nat | 02/02 | 6.800 | AA | 107.9800 | 4.24 | +0.01 | -0.29 | +0.07 |
| Walt Disney | 06/00 | 8.625 | A | 107.2900 | 4.28 | +0.01 | -0.28 | +0.15 |
| EIB FRN | 03/01 | 4.692 | AAA | 100.0025 | 3.86 | +0.01 | -0.28 | -0.20 |
| **EURO £** | | | | | | | | |
| EIB | 12/07 | 7.625 | AAA | 111.6817 | 5.94 | +0.05 | -0.14 | +0.07 |
| Dresdner Bk | 12/07 | 7.750 | AA- | 107.3705 | 6.85 | +0.05 | +0.08 | +1.28 |
| British Gas | 03/00 | 7.625 | A+ | 100.5530 | 7.19 | +0.07 | -0.20 | +0.80 |
| Abbey Nat FRN | 02/02 | 7.900 | AA | 100.1381 | 5.83 | +0.08 | -0.34 | +0.01 |
| **EURO DM** | | | | | | | | |
| EIB | 04/07 | 7.250 | AAA | 110.6200 | 5.62 | +0.04 | -0.19 | +0.01 |
| ABN Amro | 08/07 | 7.125 | n/a | 108.5660 | 5.88 | +0.02 | -0.48 | +0.85 |
| Quebec | 01/07 | 7.000 | A+ | 109.2549 | 5.73 | +0.01 | -0.44 | +0.72 |
| Citicorp FRN | 02/04 | 5.750 | A+ | 101.2376 | 5.21 | +0.01 | -0.36 | +0.27 |
| **EURO C$** | | | | | | | | |
| Bayer L-Bk | 08/04 | [illegible] | AAA | 110.7819 | 6.04 | +0.03 | +0.08 | +0.16 |
| Toronto | 05/04 | 8.500 | AA+ | 111.7607 | 5.99 | +0.03 | +0.05 | +0.11 |
| Bell Canada | 07/99 | 10.625 | A+ | 103.0703 | 6.07 | - | +0.19 | +0.98 |
| Deutsche B FRN | 09/02 | 5.875 | AAA | 100.5617 | 5.71 | +0.03 | -0.19 | -0.16 |
| **EURO YEN** | | | | | | | | |
| World Bank | 03/02 | 5.250 | AAA | 115.9843 | 0.86 | -0.01 | -0.12 | -0.04 |
| Spain | 03/02 | 5.750 | AA | 117.7530 | 0.85 | -0.01 | -0.09 | -0.05 |
| Cred Foncier | 08/02 | 4.750 | A | 113.8132 | 1.12 | -0.01 | -0.12 | +0.42 |
| Italy FRN | 07/99 | 0.727 | AA | 100.2361 | 0.09 | - | -0.01 | -0.29 |

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/annualised basis

## UK BONDS

### FTSE Actuaries Govt. Securities

| Price Indices UK Gilts | Tue Sep 8 | Day's change % | Mon Sep 7 | Accrued interest | xd adj. ytd |
|---|---|---|---|---|---|
| 1 Up to 5 years (18) | 119.78 | -0.14 | 119.93 | 2.16 | 7.80 |
| 2 5-15 years (19) | 167.34 | -0.28 | 167.82 | 2.81 | [illegible] |
| 3 Over 15 years (5) | 215.18 | -0.26 | 215.74 | 3.12 | 7.40 |
| 4 Irredeemables (6) | 281.27 | -0.30 | 282.36 | 3.95 | 6.83 |
| [illegible] | | | | | |

### UK Indices

| | Low coupon yield Sep 8 | Low coupon yield Sep 7 | Low coupon yield Yr. ago | Medium coupon yield Sep 8 | Medium coupon yield Sep 7 | Medium coupon yield Yr. ago | High coupon yield Sep 8 | High coupon yield Sep 7 | High coupon yield Yr. ago |
|---|---|---|---|---|---|---|---|---|---|
| 5 yrs | 5.08 | 5.82 | 6.93 | 5.75 | 5.88 | 6.99 | 5.74 | 5.87 | 7.05 |
| 15 yrs | 5.10 | 5.15 | 6.92 | 5.31 | 5.28 | 6.97 | 5.30 | 5.38 | 7.02 |
| 20 yrs | 5.15 | 5.12 | 6.92 | 5.29 | 5.27 | 6.96 | 5.38 | 5.36 | 7.03 |
| Irred.† | 5.25 | 5.36 | 7.04 | | | | | | |
| [illegible] | | | | | | | | | |

### FT Fixed Interest Indices

[illegible]

## UK GILTS PRICES

[illegible]

### Other Fixed Interest

[illegible]

CURRENCIES & MONEY

# Sterling hits its low for the year

MARKETS REPORT

By Simon Kuper

The pound fell to its lowest level for 1998 against the D-Mark yesterday, even though few traders believe the Bank of England will cut interest rates tomorrow.

Sterling has suffered both from the latest round of global turmoil and from the end of that turmoil. The slide in financial markets has persuaded almost everyone that UK rates, with US rates, have peaked. The market collapses briefly buoyed the pound, by making it a safe haven, but now most investors are creeping out of their shelters and ditching the currency. It is generally agreed that the UK economy is slowing down while those of continental Europe are speeding up. Surprisingly good UK industrial production figures for July yesterday, with some upward revisions for previous months, failed to change this view.

The Bank's monetary committee meets today and tomorrow. Short sterling futures contracts are pricing in the first cut of this interest rate cycle to arrive some time this autumn.

The pound briefly dropped to DM2.8585 against the D-Mark, but in late trading yesterday stood at DM2.866, 1.4 pfgs down on Monday's London close. It fell 1.2 cents against the dollar to $1.657.

The dollar failed to benefit from yesterday's surge in US stocks because the market is still in sway to Alan Greenspan's speech of last Friday. The Federal Reserve's chairman said then that inflation was no longer the main danger to the US economy, words that many took as a hint of an imminent rate cut. In late trading yesterday the dollar was at DM1.726 to the D-Mark – barely changed from Monday – and only marginally higher against the yen at Y132.20.

Helping hold the dollar back was the fear that Brazil will soon follow Russia in defaulting, devaluing, imposing capital controls or all three. The real fell within its band yesterday. Colombia, which last week devalued its peso, yesterday raised its 14-day lending rate from 37 per cent to a record high of 90 per cent in a bid to defend the currency.

The Australian and New Zealand dollar continued their rebound from all-time lows yesterday, spurred by a rally in commodity prices and by the belief that the US might cut rates.

■ Currency strategists are almost unanimous in thinking that the market is too sanguine about the chances of a US rate cut. "Greenspan's comments are the first of many trial balloons about the possibility of a rate cut," said Cary Leahey, chief US economist at High Frequency Economics in New York. Mr Leahey pointed out that Mr Greenspan had hinted at a rate rise for more than a year, yet had not in fact increased since spring 1997.

Philippa Malmgren, currency strategist at Bankers Trust in London and just returned from the Fed-backed get-together in Jackson Hole, Wyoming, ridiculed the idea that the central bank would cut rates in response to an international crisis.

"Cutting the Fed Funds rate is not going to fix Russia or anybody else," she said. "If the Fed cut, people would feel better for a few days and then they would look at these countries again, and say, 'You know, they are still a mess.'" Furthermore, she said: "All of the regional Fed governors have been of the opinion that the US economy is going way above the speed limit."

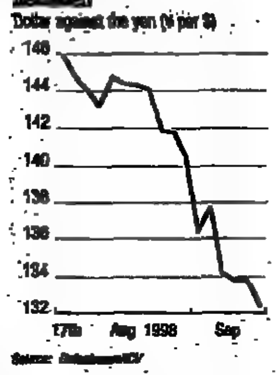
Goldman Sachs said no US rate cut was likely before spring 1999. The bank also revised down its forecast for US GNP growth in 1999 from 2.7 per cent to 1.7 per cent. That is lower than Goldman's growth forecast for continental Europe. Nick Parsons, currency strategist at Paribas Capital Markets in London, concurs: "Europe is on track for two years when growth will clearly be above that of the US."

■ Not even Germany seems close to raising interest rates. Olaf Sievert, Bundesbank council member, said yesterday that the bank would keep an "absolutely steady hand" before the euro is launched on January 1.

*He* hinted strongly that the bank would never hike again. Recent events in global markets could not be ignored, he said.

Dollar since the rouble devaluation

Dollar against the yen (¥ per $)




Source: Datastream/ICV

■ POUND IN NEW YORK

| Sep 8 | —Latest— | — Prev. close — |
|---|---|---|
| £ spot | 1.6595 | 1.6705 |
| 1 mth | 1.6568 | 1.6670 |
| 3 mth | 1.6518 | 1.6625 |
| 1 yr | 1.6323 | 1.6450 |

■ OTHER CURRENCIES

| Sep 8 | £ | | $ | |
|---|---|---|---|---|
| Czech Rp | 50.4178 | 50.5846 | 30.4250 | 30.4650 |
| Hungary | 367.782 | [illegible] | 221.070 | 222.130 |
| Iran | 4973.40 | 4970.70 | [illegible] | 3000.00 |
| Kuwait | 0.5047 | 0.5053 | 0.3045 | 0.3048 |
| Peru | 5.0701 | 5.0796 | 3.0600 | 3.0640 |
| Poland | 5.9632 | 5.9747 | 3.5980 | 3.6040 |
| Russia | 33.4727 | [illegible] | 20.2000 | 23.0000 |
| U.A.E. | 6.0856 | 6.0881 | 3.6725 | 3.6730 |

POUND SPOT FORWARD AGAINST THE POUND

| Sep 8 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Europe | | | | | | | | | | | | | |
| Austria | (Sch) | 20.1640 | -0.098 | 552 - 728 | 20.2845 | 20.1258 | 20.0925 | 4.3 | 19.9702 | 3.8 | 19.4593 | 3.2 | 103.5 |
| Belgium | (BFr) | 59.1343 | -0.2857 | 851 - 835 | 59.3990 | 58.8590 | 58.9219 | 4.3 | 58.558 | 3.9 | 57.1473 | 3.4 | 103.2 |
| Denmark | (DKr) | 10.9344 | -0.02 | 273 - 415 | 10.9581 | 10.9048 | 10.9035 | 3.4 | 10.8521 | 3.0 | 10.6593 | 2.5 | 108.5 |
| Finland | (FM) | 8.7163 | -0.0431 | 097 - 228 | 8.7490 | 8.7090 | 8.6851 | 4.3 | 8.6316 | 3.9 | 8.4214 | 3.4 | 82.2 |
| France | (FFr) | 9.6101 | -0.0423 | 050 - 152 | 9.6487 | 9.5885 | 9.5752 | 4.4 | 9.5161 | 3.9 | 9.2866 | 3.4 | 106.7 |

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Sep 8 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | J.P. Morgan index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Europe | | | | | | | | | | | | | |
| Austria | (Sch) | 12.1654 | +0.0281 | 644 - 664 | 12.2170 | 12.1247 | 12.1438 | 2.2 | 12.1059 | 2.0 | 11.9614 | 1.7 | 103.3 |
| Belgium | (BFr) | 35.6800 | +0.052 | 600 - 000 | 35.8000 | 35.5150 | 35.612 | 2.3 | 35.4965 | 2.1 | 35.0575 | 1.7 | 103.1 |
| Denmark | (DKr) | 6.5975 | +0.0345 | 950 - 000 | 6.6100 | 6.5687 | 6.58 | 1.4 | 6.5785 | 1.2 | 6.539 | 0.9 | 105.7 |
| Finland | (FM) | 5.2592 | +0.0112 | 565 - 617 | 5.2795 | 5.2454 | 5.2492 | 2.3 | 5.2325 | 2.0 | 5.1662 | 1.8 | 81.5 |
| France | (FFr) | 5.7985 | +0.0155 | 970 - 000 | 5.8186 | 5.7784 | 5.7872 | 2.3 | 5.7687 | 2.1 | 5.697 | 1.8 | 105.3 |

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

| Strike Price | CALLS Sep | Dec | Mar | PUTS Sep | Dec | Mar |
|---|---|---|---|---|---|---|
| [illegible] | 0.[illegible] | | | 0.145 | | |
| 95250 | 0.015 | 0.955 | 1.200 | 0.255 | 0.005 | 0.020 |
| 95375 | 0.010 | | | 0.375 | | |

Est. vol. total, Calls 1010 Puts 0. Previous day's open int., Calls 178514 Puts 145833

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

| Strike Price | CALLS Sep | Dec | Mar | PUTS Sep | Dec | Mar |
|---|---|---|---|---|---|---|
| 92250 | 0.210 | 0.545 | 0.900 | 0 | 0.025 | 0.040 |
| 92375 | 0.095 | | | 0.010 | | |
| 92500 | 0.030 | 0.340 | 0.685 | 0.070 | 0.070 | 0.075 |
| 92625 | 0.015 | | | 0.180 | | |
| 92750 | 0.005 | 0.150 | 0.485 | 0.295 | 0.170 | 0.125 |
| 92875 | 0 | | | 0.415 | | |

Est. vol. total, Calls 22969 Puts 29667 Previous day's open int., Calls 922869 Puts 912647

BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 7.50 | Exeter Trust Limited | 8.50 | Smith & Williamson | 7.50 |
| Allied Irish Bank (GB) | 7.50 | Financial & Gen Bank | 8.00 | Sun Bank | 7.50 |
| ●Henry Ansbacher | 7.50 | ●Robert Fleming & Co | 7.50 | TSB | 7.50 |
| Banco Bilbao Vizcaya | 7.50 | Habib Bank AG Zurich | 7.50 | United Bank of Kuwait | 7.50 |
| Bank of Cyprus | 7.50 | ●Hambros Bank | 7.50 | Unity Trust Bank Plc | 7.50 |
| Bank of Ireland | 7.50 | Heritable & Gen Inv Bk | 7.50 | Whiteaway Laidlaw | 7.50 |
| Bank of India | 7.50 | C. Hoare & Co | 7.50 | Yorkshire Bank | 7.50 |
| Bank of Scotland | 7.50 | Hongkong & Shanghai | 7.50 | | |
| Barclays Bank | 7.50 | Investec Bank (UK) Ltd | 7.50 | ● Members of London Investment Banking Association. | |
| Brit Bk of Mid East | 7.50 | Julian Hodge Bank | 7.50 | | |
| ●Brown Shipley & Co Ltd | 7.50 | ●Leopold Joseph & Sons | 7.50 | | |
| Citibank NA | 7.50 | Lloyds Bank | 7.50 | | |
| Clydesdale Bank | 7.50 | Midland Bank | 7.50 | | |
| The Co-operative Bank | 7.50 | NatWestminster | 7.50 | | |
| Coutts & Co | 7.50 | ●Rea Brothers | 7.50 | | |
| Cyprus Popular Bank | 7.50 | Royal Bk of Scotland | 7.50 | | |
| Duncan Lawrie | 7.50 | Scottish Widows Bank | 7.50 | | |
| | | ●Singer & Friedlander | 7.50 | | |

PIG MEAT DANISH PRODUCERS TO MERGE

# US threatens dominance of Denmark

By Hilary Barnes in Copenhagen

US pig producers are attacking Denmark's dominance as the world's leading pig meat exporters. The National Pork Producers' Council in Iowa intends to pursue "an aggressive, long-term programme to become the world's largest pork exporter".

However, the Danes are fighting back. On Friday, Danish Crown and Vestjyske Slagterier (VJS), the two largest co-operative meat processing businesses, announced their intention to merge to increase their clout when selling to the big buyers in Japan and Europe.

Together, the co-operatives will process some 15.5m pigs a year, have a turnover of DKr37bn ($5.6bn) and employ about 18,000.

The merger announcement comes as the lowest pig meat prices for 25 years are being recorded but the jump in pig production in the US is only one reason for weak prices.

Sales to Russia have come to an abrupt halt. This year, the value of exports to Japan, Denmark's most valuable market, dropped to DKr887m in the first five months compared with DKr2.25bn in the same period last year.

Last week, Jorgen Laursen and Anne Birgitte Lundsholt, chairman and CEO respectively of the Danish Bacon and Meat Council and two of the leading figures in the Danish meat business, were in the US to study the American challenge.

The visit generated horrified headlines in the Danish media. "Exports of DKr25bn at risk," said one, foreseeing the collapse of Denmark's single most important export industry.

US production of pigs has increased from about 85m a year in the mid-1980s to almost 100m last year. Industry representatives seen by the Danes told them production would rise to 130m pigs within 10 years or so.

"We may have problems maintaining our exports to Asia if the Americans continue to thunder along at this rate," Mr Laursen said.

The Danes were impressed by the fact that the Americans have advantages in the form of cheaper feedstock, cheaper land and much less rigorous environmental controls.

However, Kaj Skaaning, chairman of the Danish Pig Producers' Association, who visited the US last year, is less impressed by the American offensive.

"The Americans are about to score a solid own goal," he said. "They are in danger of producing more meat than they can sell. They are producing for the catering market segment, which we have been on the way out of for years."

Mr Skaaning says catering is a low-value market in which customer preference plays no role. The Danes concentrate on products where discerning consumers look at quality, hygiene and (in Europe) animal welfare.

Because of Denmark's high veterinary and hygiene standards, Mr Skaaning believes it is five to 10 years ahead of the Americans. According to him there are eight times as many cases of salmonella in America.

Denmark's agricultural exports totalled DKr54.5bn in 1997, about 17 per cent of all merchandise exports. Pig meat exports, including canned products, totalled DKr23.6bn.

# Romania nears agreement on land returns

Move could herald much-needed investment and reforms in the farming sector, writes **Virginia Marsh**

After months of wrangling, the Romanian government hopes to agree soon on a new formula for the restitution of agricultural land.

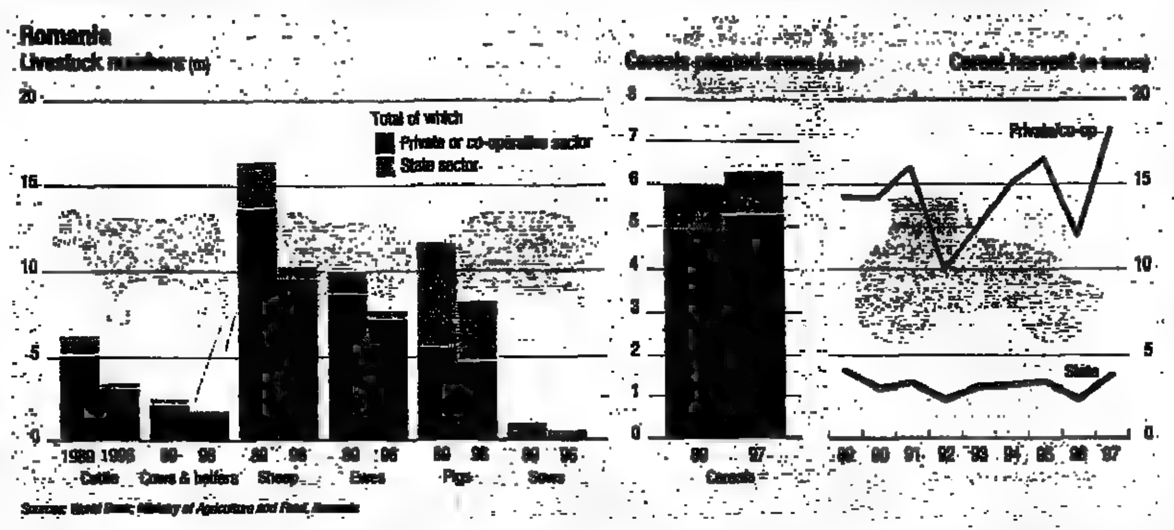
The delay and problems from previous legislation on the return of land have held up badly needed investment in agriculture, one of the largest and least developed sectors in the economy.

Dinu Gavrilescu, agriculture minister, believes the country's multi-party coalition will now accept legislation allowing the return of up to 50 hectares of land per former owner and providing for financial compensation where this was not possible.

He is "90 per cent" sure the coalition will accept shortly a draft law to this effect. The law would amend 1991 legislation that gave back up to 10 hectares each to some 5m mainly peasant farmers, thereby creating a large number of small, inefficient farms.

Some coalition members have argued it would be better to privatise remaining state farms as units rather than opt for further land restitution.

The move comes at a time of increasing pressure to speed reform in the sector, which last year provided 18.5 per cent of gross domestic product and about a third of employment.




Source: World Bank; Ministry of Agriculture and Food, Romania

Backtracking on agreed market-led reforms has frozen disbursement of the second half of a World Bank loan, while what Mr Gavrilescu described as the most "calamitous" weather conditions since 1946 mean the sector's output will fall sharply this year.

The year started with late frosts, followed by severe flooding and culminated in a drought that only began to ease late last month.

The main wheat growing area in the south had no rain for nearly 10 weeks from mid-June, while daily temperatures averaged 38 degrees celsius, Mr Gavrilescu said.

He expected a cereal harvest of about 14m tonnes this year, down from 22m tonnes in 1997, and well below a yearly average of 18m tonnes since the collapse of communism in 1989. This year's wheat crop of 5.25m tonnes would permit exports of about 1m tonnes.

Mr Gavrilescu maintained that Romania had fulfilled most of the reforms agreed with the World Bank, notably last year's liberalisation of basic food prices and the introduction of a transparent system of subsidies.

The second tranche has been frozen because the bank wants Romania to lower import tariffs further; because there have been delays in privatising state-owned farms and powerful cereal trading companies; and because of the introduction of new subsidies for wheat storage and for millers and bakers.

"The government was very courageous in liberalising prices last year," a western agricultural analyst said.

"The problem is that it has not taken measures to create the conditions for real markets to develop in land, production and agricultural inputs. There is a tendency to return to the old ways of stimulating the sector through direct intervention," he added.

Mr Gavrilescu said Romania still hoped to reach agreement with the bank but recognised clear divergences between its conditions and government policy.

Romania "did not have the appetite" to reduce average tariffs for agricultural imports from 27 per cent to 22 per cent, as previously agreed, partly because this might prejudice negotiations with the World Trade Organisation and the European Union.

Romania unilaterally raised tariffs on wheat and flour from Hungary last month after a wave of imports threatened more expensive local production.

# Venezuela says more cuts in oil premature

By Robert Corzine

It is too early for leading oil exporters to discuss any additional production cuts, according to Erwin Arrieta, Venezuela's energy minister.

Mr Arrieta said the market was still awaiting firm evidence that the Organisation of Petroleum Exporting Countries and non-Opec producers were implementing cuts agreed this year.

"Why think of additional cuts if we haven't completed the perception in the markets that we have implemented earlier ones?" he asked.

Venezuela was "10 days to two weeks away" from being in full compliance with all three tranches of cuts agreed at meetings in Riyadh, Amsterdam and Vienna.

The country, which last year contributed to the overhang in oil markets by producing above its Opec quota, says its output is about 3.9m barrels a day compared with a target of 2.84m b/d.

The minister was "satisfied" with the way oil markets had reacted to the reductions. He preferred to see gradual increases in prices, even though Venezuela was struggling with sharply lower oil revenues.

Mr Arrieta said the price of a basket of Venezuelan crudes had averaged about $11 a barrel this year compared with the original budget estimate of $15 a barrel; oil revenues are running $6bn lower than last year.

He confirmed that the present price slump would force Venezuela to stretch out the timetable for some projects aimed at increasing its oil capacity. Asked whether Caracas would renegotiate the terms of deals with foreign oil companies should they prove impossible to implement given low crude prices, he said: "Talking is a natural interaction between partners."

# Support by Inro bolsters natural rubber

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Paul Solman

Natural rubber prices rose after the International Natural Rubber Organisation intervened in the market to buy stocks. The action came as rubber producers met in Kuala Lumpur to discuss a new price support scheme that could effectively make Inro obsolete.

Traders said Inro began buying rubber when the average price fell below its "must buy" level of 172 Malaysian cents a kg. Inro has been heavily criticised by leading rubber producers such as Thailand and Malaysia for failing to support prices aggressively enough.

The October contract for RSS1 grade rubber, quoted by the Malaysian Rubber Board, closed up 2.5 cents at 253.5 Malaysian cents a kg, after a week of decline. Prices also rose in Indonesia.

Gold bulls, who had been hoping for a big price rise because some US investment funds might have to scramble to cover their positions, were disappointed. Gold was "fixed" in London yesterday afternoon at $285.40 a troy ounce, down $2.85 from Monday's afternoon fix.

Dealers said a jump in US share prices and a stronger US dollar were responsible.

Silver prices were also badly hit for the same reasons, they said. At one time in London silver was down by 20 cents an ounce, or nearly 4 per cent, from $5.04 at Monday's close in London to $4.84.

On the London Metal Exchange prices surged in early trading on speculative and fund buying. Copper rose nearly 3 per cent to $1,717 a tonne before easing to $1,690.50 at the close.

The central bank of Chile, the biggest producing country, said it expected prices to average $1,684 a tonne this year and $1,653 in 1999.

Oil prices remained rangebound, with Brent Blend for October delivery unable to sustain early gains.

In late trading on London's International Petroleum Exchange October Brent was quoted at $13.08 a barrel, up two cents on Monday's close.

## COMMODITIES PRICES

### BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1390-91 | 1412.5-14.5 |
| Previous | 1389.5-90.5 | 1410-11 |
| High/low | | 1426/1399 |
| AM Official | 1392-93 | 1415-16 |
| Kerb close | | 1404/05 |
| Open int. | 287,224 | |
| Total daily turnover | 61,458 | |

■ ALUMINIUM ALLOY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1188-93 | 1213-18 |
| Previous | 1183-88 | 1205-10 |
| High/low | | 1220/1210 |
| AM Official | [illegible] | 1214-15 |
| Kerb close | | 1205-10 |
| Open int. | 7,098 | |
| Total daily turnover | 2,930 | |

■ LEAD ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 533-34 | 543-44 |
| Previous | 531.5-3.5 | 542-44 |
| High/low | | 544/540 |
| AM Official | 531-31.5 | 540.5-41.0 |
| Kerb close | | 540-41 |
| Open int. | 35,222 | |
| Total daily turnover | 7,[illegible] | |

■ NICKEL ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 4320-30 | 4380-85 |
| Previous | 4265-75 | 4325-35 |
| High/low | | 4460/4320 |
| AM Official | 4340-45 | 4395-400 |
| Kerb close | | 4340-45 |
| Open int. | 59,885 | |
| Total daily turnover | 24,322 | |

■ TIN ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 5470-80 | 5350-70 |
| Previous | 5510-20 | 5370-80 |
| High/low | | 5375-5350 |
| AM Official | 5470-75 | 5360-65 |
| Kerb close | | 5340-60 |
| Open int. | 14,635 | |
| Total daily turnover | 1,940 | |

■ ZINC, special high grade ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1023-24 | 1046-47 |
| Previous | 1025-26 | 1048-48.5 |
| High/low | | 1052/1042 |
| AM Official | 1023-23.5 | 1046-47 |
| Kerb close | | 1043-44 |
| Open int. | 85,244 | |
| Total daily turnover | 22,968 | |

■ COPPER, grade A ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1687.5-88.5 | 1706-09 |
| Previous | 1652.5-53.5 | 1672-73 |
| High/low | | 1718/1684 |
| AM Official | 1684-84.5 | 1703-04 |
| Kerb close | | 1690-90.5 |
| Open int. | 165,206 | |
| Total daily turnover | 77,642 | |

■ LME AM Official £/$ rate: [illegible]
LME Closing £/$ rate: 1.6585
Spot: 1.6587 3 mths: 1.6511 6 mths: 1.6434 9 mths: 1.6369

■ HIGH GRADE COPPER (COMEX)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 77.15 | +1.85 | 78.00 | 76.60 | 601 | 5,736 |
| Oct | 77.00 | +1.50 | 77.60 | 76.15 | 160 | 2,588 |
| Nov | 77.15 | +1.75 | 77.70 | 77.15 | 8 | 1,783 |
| Dec | 77.25 | +1.85 | 78.10 | 75.75 | 3,161 | 30,459 |
| Jan | 77.45 | +1.85 | 75.70 | 75.30 | 11 | 2,294 |
| Feb | 77.55 | +1.60 | - | - | - | 1,118 |
| Total | | | | | 3,608 | 61,717 |

### PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

| Gold(Troy oz) | $ price | £ equiv | SFr equiv |
|---|---|---|---|
| Close | 285.70-286.20 | | |
| Opening | 287.60-287.90 | | |
| Morning fix | 287.30 | 172.980 | 405.242 |
| Afternoon fix | 285.40 | 172.604 | 404.540 |
| Day's High | 287.70-288.10 | | |
| Day's Low | 285.00-285.50 | | |
| Previous close | 288.20-288.50 | | |

Loco Ldn Mean Gold Lending Rates (Vs US$)

| | | | |
|---|---|---|---|
| 1 month | 5.03 | 6 months | 4.06 |
| 2 months | 4.88 | 12 months | 3.78 |
| 3 months | 4.75 | | |

| Silver Fix | p/troy oz. | US cts equiv. |
|---|---|---|
| Spot | 301.81 | 501.80 |

Silver Lending Rates

| | | | |
|---|---|---|---|
| 1 month | 3.75 | 6 months | 2.20 |
| 2 months | 3.30 | 12 months | 2.10 |
| 3 months | 2.90 | | |

| Gold Coins | $ price | £ equiv. |
|---|---|---|
| Krugerrand | 288-293 | 174-177 |
| New Sovereign | 68-72 | 42-43 |

### Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 285.1 | -0.9 | - | - | - | - |
| Oct | 285.9 | -0.9 | 289.0 | [illegible] | 288 | 10,821 |
| Dec | 288.2 | -0.9 | 291.7 | 288.2 | 32,424 | 108k |
| Feb | 290.9 | -0.9 | 292.7 | 290.2 | [illegible] | [illegible] |
| Apr | 292.7 | -0.9 | [illegible] | 292.4 | 1 | 11,211 |
| Jun | 294.5 | -0.9 | 294.7 | 294.7 | [illegible] | 14,[illegible] |
| Total | | | | | 33,417 | 198,[illegible] |

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 361.2 | -6.0 | 369.2 | 358.5 | 487 | 9,704 |
| Jan | 362.4 | -5.8 | 365.0 | 360.0 | 170 | 1,033 |
| Apr | 363.4 | -5.8 | 362.5 | 362.5 | 21 | 41 |
| Jul | 364.4 | -5.8 | - | - | 2 | 16 |
| Total | | | | | [illegible] | 10,795 |

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 282.20 | -6.80 | 283.00 | 280.00 | 287 | 149 |
| Dec | 278.70 | -5.30 | 284.00 | 275.50 | 631 | 2,273 |
| Mar | 278.20 | -5.30 | - | - | 300 | 325 |
| Total | | | | | 918 | 2,749 |

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 485.4 | -11.4 | 492.5 | 481.5 | 982 | 756 |
| Dec | 491.3 | -11.7 | 505.5 | [illegible] | 9,198 | 57,304 |
| Jan | 493.2 | -11.7 | 506.0 | 506.0 | 1 | 40 |
| Mar | 496.0 | -11.7 | 507.0 | 490.0 | 97 | 6,895 |
| May | 497.1 | -11.7 | 500.0 | 494.5 | 4 | 1,728 |
| Jul | 499.1 | -11.7 | 510.5 | 500.0 | 18 | 2,573 |
| Total | | | | | 10,328 | 77,304 |

### ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 14.27 | -0.32 | 14.66 | 14.25 | 54,697 | 102k |
| Nov | 14.61 | -0.27 | 14.78 | 14.50 | 25,297 | 50,818 |
| Dec | 14.74 | -0.25 | 14.95 | 14.73 | 15,573 | 75,204 |
| Jan | 14.97 | -0.23 | 15.17 | 14.97 | 4,177 | 36,280 |
| Feb | 15.18 | -0.21 | 15.30 | 15.16 | 2,084 | 19,180 |
| Mar | 15.42 | -0.13 | 15.42 | 15.33 | 1,078 | 16,411 |
| Total | | | | | 118,742 | 482,821 |

■ CRUDE OIL IPE ($/barrel)

| | Open price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 13.03 | -0.03 | 13.24 | 12.95 | 18,259 | 58,331 |
| Nov | 13.32 | [illegible] | 13.60 | 13.24 | 9,930 | 40,712 |
| Dec | 13.34 | -0.04 | 13.71 | 13.47 | 4,285 | 43,021 |
| Jan | 13.71 | -0.01 | 13.82 | [illegible] | 1,791 | 31,139 |
| Feb | 13.95 | +0.09 | [illegible] | 13.75 | 381 | 10,242 |
| Mar | 14.04 | +0.03 | 14.05 | 14.00 | 158 | 11,173 |
| Total | | | | | n/a | n/a |

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 38.65 | -0.46 | 39.15 | 38.25 | 17,692 | 46,808 |
| Nov | 39.65 | [illegible] | 40.30 | 39.60 | 9,021 | 21,296 |
| Dec | 41.20 | -0.43 | 41.60 | 40.95 | 6,118 | 25,057 |
| Jan | 42.45 | -0.38 | 42.90 | 42.10 | 3,392 | 25,818 |
| Feb | 43.40 | -0.28 | 43.85 | 43.20 | 684 | 17,520 |
| Mar | 43.90 | [illegible] | 44.00 | 43.65 | 159 | 16,002 |
| Total | | | | | 37,770 | 183,572 |

■ GAS OIL IPE ($/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 114.25 | -0.50 | 115.00 | 112.75 | 5,918 | 12,815 |
| Oct | 118.25 | -0.75 | 118.50 | 116.50 | 6,612 | 34,058 |
| Nov | 121.50 | -0.25 | 121.75 | 120.00 | 928 | 19,015 |
| Dec | 124.00 | -1.00 | 124.75 | 122.75 | 1,572 | 40,409 |
| Jan | 127.25 | -0.50 | 127.50 | 126.00 | 456 | 16,041 |
| Feb | 130.00 | -0.25 | 130.00 | 129.00 | 159 | 13,137 |
| Total | | | | | 15,588 | 171,686 |

■ NATURAL GAS IPE (1,000 therms/day; p/therm)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 12.870 | -0.070 | 12.880 | 12.850 | 300 | 3,666 |
| Nov | 14.400 | -0.060 | 14.450 | 14.400 | 180 | 2,510 |
| Total | | | | | 1,480 | 24,875 |

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 1.875 | +0.092 | 1.895 | 1.800 | 318 | 57,573 |
| Nov | 2.105 | +0.093 | 2.120 | 2.040 | 18,100 | 32,176 |
| Dec | 2.315 | +0.083 | 2.320 | 2.230 | 8,051 | 33,430 |
| Jan | 2.455 | +0.086 | 2.476 | 2.430 | 4,080 | 31,771 |
| Feb | 2.390 | +0.046 | 2.400 | 2.370 | 2,813 | 18,390 |
| Mar | 2.285 | +0.033 | 2.305 | 2.260 | 2,615 | 18,275 |
| Total | | | | | [illegible] | 261,705 |

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 41.35 | -0.73 | 42.15 | 41.30 | 14,972 | 42,714 |
| Nov | 42.05 | -0.51 | 42.65 | 42.05 | 6,062 | 11,768 |
| Dec | 42.85 | -0.55 | 43.50 | 42.85 | 1,097 | 8,764 |
| Jan | 43.50 | -0.55 | 44.10 | 43.85 | [illegible] | [illegible] |
| Feb | 45.10 | -0.10 | 45.10 | 45.10 | 87 | 1,926 |
| Mar | 45.60 | - | 45.60 | 45.60 | 21 | 1,761 |
| Total | | | | | 23,122 | 84,767 |

### GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 72.25 | +0.[illegible] | 72.00 | 72.00 | - | 154 |
| Nov | 73.50 | +0.90 | 73.50 | 72.75 | 188 | 2,871 |
| Jan | 75.40 | +0.80 | 75.25 | 75.00 | 87 | 2,233 |
| Mar | 77.05 | +1.15 | 77.05 | 76.50 | 257 | 1,284 |
| May | 78.80 | +0.90 | 78.50 | 78.00 | 117 | 1,664 |
| Total | | | | | 657 | 7,658 |

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 250.00 | +4.00 | 250.75 | 240.00 | 3,780 | 3,330 |
| Dec | 265.25 | +3.50 | 266.00 | 261.50 | 15,624 | 78,150 |
| Mar | 281.00 | +3.50 | 281.50 | 279.50 | 5,494 | 24,324 |
| May | 290.75 | +3.50 | 292.00 | 290.00 | 308 | 4,561 |
| Jul | 301.00 | +3.50 | 301.00 | 300.00 | [illegible] | 10,074 |
| Sep | 309.00 | +4.00 | 307.00 | 304.00 | 20 | 332 |
| Total | | | | | 28,346 | 119,827 |

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 200.25 | +4.75 | 201.25 | 197.75 | 4,675 | 9,045 |
| Dec | 213.00 | +5.00 | 213.75 | 207.75 | 33,959 | 179,544 |
| Mar | 225.25 | +4.75 | 226.00 | 220.50 | 4,307 | 58,425 |
| May | 232.50 | +4.75 | 233.25 | 227.75 | 1,936 | 21,285 |
| Jul | 238.50 | +5.00 | 239.00 | 235.00 | 1,880 | 28,389 |
| Sep | 245.00 | +5.50 | 244.50 | 241.50 | [illegible] | 4,709 |
| Total | | | | | 47,[illegible] | 314,846 |

■ BARLEY LIFFE (100 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 71.00 | +1.00 | 68.80 | 68.50 | 7 | 6 |
| Nov | 72.25 | +1.00 | 72.25 | 71.75 | 41 | 390 |
| Jan | 74.25 | +1.00 | 73.75 | 73.75 | 12 | 386 |
| Mar | 75.80 | +0.85 | - | - | - | 60 |
| May | 77.80 | +0.85 | - | - | - | 23 |
| Total | | | | | 60 | 1,368 |

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 528.00 | +3.00 | 528.00 | 524.50 | 2,847 | 4,172 |
| Nov | 522.25 | +3.75 | 527.00 | 518.25 | 25,636 | 86,128 |
| Jan | 532.00 | +3.75 | 536.50 | 530.50 | 3,187 | 22,348 |
| Mar | 543.25 | +4.00 | 547.00 | 541.00 | 1,631 | 16,862 |
| May | 552.00 | +3.50 | 557.00 | 551.00 | 432 | 6,096 |
| Jul | 562.50 | +3.75 | 566.00 | 561.00 | 1,418 | 8,349 |
| Total | | | | | 35,132 | 158,119 |

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 24.37 | +0.02 | 24.40 | 24.16 | 3,850 | 3,358 |
| Oct | 24.48 | +0.03 | 24.65 | 24.28 | 8,395 | 26,459 |
| Dec | 24.66 | +0.07 | 24.88 | 24.48 | 16,841 | 49,007 |
| Jan | 24.75 | +0.09 | 24.90 | 24.60 | 2,512 | 8,947 |
| Mar | 24.80 | +0.05 | 24.90 | 24.63 | 1,598 | 11,482 |
| May | 24.87 | +0.11 | 24.85 | 24.72 | 695 | 4,832 |
| Total | | | | | 33,298 | 113,115 |

■ SOYABEAN MEAL CBT (100 tons; $/ton)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 134.2 | +1.9 | 134.0 | 133.0 | 3,605 | 6,870 |
| Oct | 130.1 | +1.2 | 130.5 | 129.8 | 4,729 | 25,495 |
| Dec | 132.5 | +0.7 | 132.2 | 131.9 | 8,218 | 63,859 |
| Jan | 134.6 | +1.1 | 135.2 | 134.6 | [illegible] | 14,[illegible] |
| Mar | 138.6 | +1.0 | 139.5 | 138.4 | 1,008 | 12,516 |
| May | 142.3 | +0.9 | 143.5 | 142.0 | 935 | 6,423 |
| Total | | | | | 31,727 | 137,948 |

■ POTATOES LIFFE (20 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Nov | 80.0 | - | - | - | - | 3 |
| Mar | 116.5 | - | - | - | - | - |
| Apr | 167.4 | +3.4 | 167.4 | 165.0 | 36 | 2,266 |
| May | 177.4 | +3.4 | - | - | - | 29 |
| Jun | 187.4 | +3.4 | - | - | - | - |
| Total | | | | | 36 | 2,298 |

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 860 | -4 | 860 | 860 | 37 | 180 |
| Oct | 905 | -25 | 932 | 905 | 31 | 491 |
| Jan | 973 | -10 | - | - | - | 391 |
| Apr | 990 | -10 | - | - | - | 301 |
| Jul | 875 | -10 | - | - | - | 300 |
| Total | | | | | 44 | 1,665 |

| | Close | Prev |
|---|---|---|
| BFI | 833 | 830 |

### PULP AND PAPER

■ POLPEX (NLX US$: 3A in dry tons)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 400.00 | - | - | - | - | 269 |
| Dec | 436.00 | -0.25 | 436.00 | 436.00 | 7 | 374 |
| Total | | | | | 7 | 683 |

FUTURES DATA
All futures data supplied by CMS.

Tea from the Tea Brokers' Association
Mombasa Demand was strong. Brighter liquoring and all medium BPFs sold at firm to dearer rates. Brighter and medium PF1's were dearer by 5-10 cents. Lower mediums were firm to 10 cents dearer. Well-made plainer sorts gained 15-30 cents with poorer sorts dearer by 2-5 cents. Mediums appreciated by 5-10 cents. Lower mediums advanced 5-15 cents. Plainer sorts were dearer by 10-25 cents. Dust 1's were dearer. Secondary fannings and dusts sold at firm to dearer rates. There was strong inquiry from buyers for Egypt. Demand from Sudan, Yemen and the Middle East was maintained.

### SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | [illegible] | +5 | 1035 | [illegible] | 28 | 187 |
| Dec | 1075 | +10 | 1077 | 1067 | 1,785 | 64,784 |
| Mar | 1102 | +10 | 1104 | 1095 | 585 | 41,190 |
| May | 1119 | +9 | 1119 | 1113 | [illegible] | 14,852 |
| Jul | 1136 | +9 | 1138 | 1132 | 103 | 9,123 |
| Sep | 1154 | +10 | 1156 | 1153 | 105 | 27,053 |
| Total | | | | | 2,816 | 187,596 |

■ COCOA CSCE (10 tonnes; $/tonnes)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 1560 | -8 | 1584 | 1560 | 13 | 993 |
| Dec | 1593 | -9 | 1612 | 1591 | 2,070 | 35,359 |
| Mar | 1636 | -8 | 1653 | 1634 | 361 | 18,967 |
| May | 1662 | -8 | 1673 | 1673 | 352 | 5,843 |
| Jul | 1686 | -7 | 1706 | 1706 | 35 | 1,901 |
| Sep | 1714 | -8 | - | - | - | 1,891 |
| Total | | | | | 2,479 | 71,884 |

■ COCOA (ICCO) (SDR's/tonne)

| Sep 7 | Price | Prev. day |
|---|---|---|
| Daily | n/a | 1277.37 |

■ COFFEE LIFFE (5 tonnes; $/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 1705 | +19 | 1715 | 1680 | 638 | 3,059 |
| Nov | 1682 | +14 | 1693 | 1658 | 5,073 | 17,415 |
| Jan | 1632 | +19 | 1640 | 1615 | 838 | 4,058 |
| Mar | 1605 | +22 | 1610 | 1598 | 212 | 2,916 |
| May | 1590 | +22 | [illegible] | 1577 | 17 | 496 |
| Jul | 1595 | +22 | 1595 | 1595 | 30 | 171 |
| Total | | | | | 6,774 | [illegible] |

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 122.05 | +3.15 | 123.00 | 119.50 | 75 | 985 |
| Dec | 115.65 | +2.80 | 117.00 | 112.25 | 3,241 | 14,289 |
| Mar | 113.00 | +2.80 | 113.50 | 110.80 | 543 | 6,284 |
| May | 113.80 | +2.35 | 114.00 | 112.00 | 78 | 2,790 |
| Jul | 114.00 | +2.50 | 114.00 | 113.25 | 31 | 1,288 |
| Sep | 118.95 | +2.05 | 114.70 | 114.50 | 13 | 1,442 |
| Total | | | | | 3,930 | 27,728 |

■ COFFEE (ICO) (US cents/pound)

| Sep 7 | Price | Prev. day |
|---|---|---|
| Comp. daily | n/a | 99.28 |
| 15 day average | n/a | 99.07 |

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 222.2 | -5.8 | 228.2 | 222.1 | 2,584 | 14,541 |
| Dec | 224.2 | -5.3 | 230.0 | 224.2 | 1,722 | 9,827 |
| Mar | 229.7 | -4.6 | 235.2 | 230.0 | 674 | 14,114 |
| May | 235.2 | -4.4 | 239.0 | 236.0 | 102 | 2,364 |
| Aug | 241.2 | -4.4 | 245.5 | 246.8 | - | 1,446 |
| Oct | 242.2 | -4.1 | 247.5 | 247.5 | 1 | 1,110 |
| Total | | | | | 4,979 | 43,597 |

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 7.35 | -0.24 | 7.71 | 7.31 | 11,143 | 70,087 |
| Mar | 7.85 | -0.22 | 8.15 | 7.84 | 3,811 | 58,119 |
| May | 8.05 | -0.19 | 8.29 | 8.04 | 1,033 | 8,849 |
| Jul | 8.12 | -0.20 | 8.35 | 8.15 | 68 | 7,896 |
| Oct | 8.32 | -0.18 | 8.65 | 8.40 | 21 | 9,859 |
| Total | | | | | 16,229 | 167,946 |

■ COTTON NYCE (50,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 73.87 | -0.03 | 75.00 | 73.05 | 8 | 4,181 |
| Dec | 74.83 | +0.38 | 75.40 | 73.75 | 82 | 35,559 |
| Mar | 74.45 | +0.69 | 74.50 | 73.50 | [illegible] | 16,687 |
| May | 74.40 | +0.64 | 74.40 | 73.55 | 17 | 10,108 |
| Jul | 74.55 | - | 75.10 | 74.35 | 4 | 6,403 |
| Total | | | | | n/a | n/a |

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 115.45 | +0.55 | 116.95 | 115.00 | 20 | 1,129 |
| Nov | 118.10 | +0.35 | 118.60 | 116.70 | 99 | 17,679 |
| Jan | 120.75 | +0.40 | 121.10 | 119.80 | [illegible] | 5,066 |
| Mar | 123.40 | +0.40 | 123.30 | 122.75 | 208 | 2,670 |
| May | 125.80 | +0.20 | 125.50 | 124.60 | 58 | 733 |
| Jul | 127.95 | -0.30 | 127.30 | 127.30 | 20 | 349 |
| Total | | | | | n/a | n/a |

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

### INDICES

■ Reuters (Base: 18/9/31 = 100)

| Sep 8 | Sep 7 | month ago | year ago |
|---|---|---|---|
| 1498.2 | 1496.7 | 1535.1 | 1897.7 |

■ CRB Futures (Base: 1967 = 100)

| Sep 7 | Sep 4 | month ago | year ago |
|---|---|---|---|
| - | 201.23 | - | - |

■ GSCI Spot (Base: 1970 = 100)

| Sep 7 | Sep 4 | month ago | year ago |
|---|---|---|---|
| 142.80 | 142.07 | [illegible] | [illegible] |

■ LME WAREHOUSE STOCKS (tonnes)

| | | | |
|---|---|---|---|
| Aluminium | +3,480 | to | 492,425 |
| Aluminium alloy | +140 | to | 75,980 |
| Copper | +9,800 | to | 349,125 |
| Lead | -150 | to | 113,425 |
| Nickel | -60 | to | 60,360 |
| Zinc | -550 | to | 385,275 |
| Tin | -75 | to | 8,650 |

### MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

| | Sett Price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 58.950 | +0.825 | 59.000 | 58.150 | 7,518 | 39,530 |
| Dec | 61.400 | +0.900 | 61.450 | 60.600 | 2,412 | 24,782 |
| Feb | 61.925 | +0.400 | 61.975 | 61.500 | 1,011 | 14,298 |
| Apr | 63.275 | +0.400 | 63.300 | 62.850 | 482 | 8,308 |
| Jun | 61.500 | +0.100 | 61.550 | 61.300 | 218 | 3,472 |
| Aug | 61.200 | +0.150 | 61.350 | 61.150 | 84 | 848 |
| Total | | | | | 11,674 | [illegible] |

■ LEAN HOGS CME (40,000lbs; cents/lbs)

| | Sett Price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 37.975 | +0.850 | 38.050 | 37.250 | 2,106 | 14,884 |
| Dec | 38.000 | +0.475 | 38.300 | 37.550 | 1,446 | 10,075 |
| Feb | 42.600 | +0.050 | 43.100 | 42.200 | 480 | 4,766 |
| Apr | 45.475 | +0.425 | 45.600 | 45.200 | 49 | 1,452 |
| Jun | 54.300 | +0.325 | 54.450 | 54.200 | 43 | 505 |
| Jul | 55.350 | +0.180 | 55.300 | 55.100 | 28 | 420 |
| Total | | | | | 4,228 | 32,071 |

■ PORK BELLIES CME (40,000lbs; cents/lbs)

| | Sett Price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Feb | 44.750 | -2.550 | 47.400 | 44.550 | 708 | 2,538 |
| Mar | 45.000 | -3.000 | 47.600 | 45.000 | 23 | 138 |
| May | 46.500 | -1.700 | 48.250 | 48.200 | 8 | 16 |
| Total | | | | | 739 | 2,701 |

### LONDON TRADED OPTIONS

| Strike price $ tonne | Calls | | Puts | |
|---|---|---|---|---|
| ■ ALUMINIUM (99.7%) LME | Oct | Jan | Oct | Jan |
| 1350 | 58 | 92 | 13 | 27 |
| 1400 | 27 | 63 | 34 | 47 |
| 1450 | 10 | 41 | 67 | 73 |
| ■ COPPER (Grade A) LME | Oct | Jan | Oct | Jan |
| 1600 | 100 | 137 | 13 | 45 |
| 1700 | 38 | 83 | 52 | [illegible] |
| 1800 | 10 | 46 | 123 | 140 |
| ■ COFFEE LIFFE | Sep | Nov | Sep | Nov |
| 1600 | 31 | 101 | 1 | 19 |
| 1650 | 1 | 68 | 21 | 36 |
| 1700 | 1 | 44 | 70 | 62 |
| ■ COCOA LIFFE | Sep | Dec | Sep | Dec |
| 1025 | 35 | 67 | 1 | 17 |
| 1050 | [illegible] | 51 | 4 | 26 |
| 1075 | 1 | 39 | 26 | 39 |
| ■ BRENT CRUDE IPE | Oct | Nov | Oct | Nov |
| 1300 | 23 | - | 13 | - |
| 1350 | 11 | - | - | - |
| 1400 | - | 40 | - | - |

### LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

| | | +or- |
|---|---|---|
| Dubai | $12.41-2.81x | -0.105 |
| Brent Blend (dated) | $12.45-2.49 | -0.035 |
| Brent Blend (Oct) | $13.05-3.09 | +0.085 |
| W.T.I. | $14.33-4.39x | |

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

| | | |
|---|---|---|
| Premium Gasoline | $147-150 | |
| Gas Oil | $118-119 | +1 |
| Heavy Fuel Oil | $58-59 | |
| Naphtha | $113-116 | |
| Jet fuel | $134-135 | |
| Diesel | $127-128 | +0.5 |

■ NATURAL GAS (Pence/therm)

| | | |
|---|---|---|
| Bacton (Oct) | 12.88-12.95 | -0.03 |

Petroleum Argus Tel. London (0171) 359 8792

■ OTHER

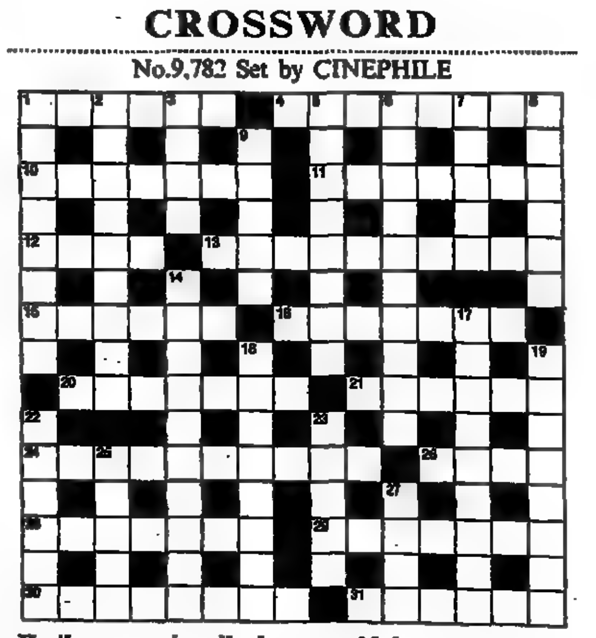
| | | |
|---|---|---|
| Gold (per troy oz)♣ | $286.95 | -2.60 |
| Silver (per troy oz)♣ | 480.50c | -14.00 |
| Platinum (per troy oz.) | $361.00 | -7.25 |
| Palladium (per troy oz.) | $277.00 | -6.00 |
| Copper | 81.0c | |
| Lead (US prod.) | 45.00c | |
| Tin (Kuala Lumpur) | 23.13r | |
| Tin (New York) | 259.5 | |
| Cattle (live weight) | 82.87p | -2.57* |
| Sheep (live weight) | 82.57p | -0.11* |
| Pigs (live weight)† | 40.33p | -5.32* |
| Lon. day sugar (raw) | $188.00 | [illegible] |
| Lon. day sugar (wte) | $232.00 | -0.20 |
| Barley (Eng. feed) | Unq | |
| Maize (US No3 Yellow) | £109.00 | |
| Wheat (US Dark North) | Unq | |
| Rubber (Oct)♥ | 46.50p | |
| Rubber (Nov)♥ | 47.00p | |
| Rubber (KL RSS No1) | 252.50m | +1.50 |
| Coconut Oil (Phil)§ | $555.0y | +5.0 |
| Palm Oil (Malay.)§ | 582.5 | -7.5 |
| Copra (Phil)§ | $413.0y | +8.0 |
| Soyabeans (US) | 140.0y | |
| Cotton Outlook'A' index | 67.40 | |
| Wooltops (64s Super) | 300p | |

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. x Oct. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,572 head of pigs sold.

JOTTER PAD

## CROSSWORD

No.9,782 Set by CINEPHILE

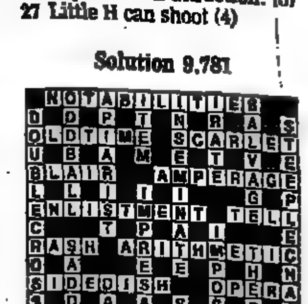


H, the same in all clues, could be a different colour

ACROSS
1 Hs take food, holding on (6)
4 Close down organ with binding attachment (8)
10 It's awfu' wet in the water using simple gadgets (3-4)
11 Temporary homes are about a pound in old money (7)
12 Ground feeder? (4)
13 Full nelson may be readily defensible (10)
15 Little water creatures whom not to know is retrograde (6)
16 Saint of port causing a breeze in Essex headland (7)
20, 21 Feature of church's frantic search for H (13)
24 Turn to new chapel to get in coach for great man's H (10)
26 America's responsibility? (4)
28 Queerly, I'd grant quest for quid pro quos after H (7)
29 Vocalist brings back seabeast, taking one to river (7)
30 Did I meet myself like this once? (8)
31 Holy quires? Best keep the same H all the way across (6)

DOWN
1 H has a friend – not American – ominous (8)
2 Commercial opportunity for H town (9)
3 River garden (4)
5 Grand occasion for Hs (8)
6 Detectors of romances that make girls happy with love for one (10)
7 H has some beer – a round (5)
8 Live team of engineers? (6)
9 H that's grey, cut out of hill (5)
14 The object of insurance for a fieldsman? (5,5)
17 Treatment for a bow before fictional H (9)
18 Sweet makes some of our circle argumentative (5,3)
19 Reporter's date with beast and Arthurian knight (8)
22 A is for Alan the actor – reduces (6)
23 Blow for H (5)
25 Superstitious attraction? (5)
27 Little H can shoot (4)

Solution 9,781



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# FT MANAGED FUNDS SERVICE



● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

## OFFSHORE AND OVERSEAS

### BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

### BERMUDA (REGULATED)(**)

### GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

### GUERNSEY (REGULATED)(**)

### IRELAND (FSA RECOGNISED)

BT Fund Managers (Ireland) Ltd (z)

Lazard Investment Funds Ltd

Baring International Fd Mgrs (Ireland) Ltd

Baring Mutual (Ireland) Ltd

Bear Stearns Asset Mgt (Ireland) Ltd

Blackstone Franks Managers Ireland Ltd

Household International Fund Plc (x)

Investec Asset Management (Ireland) Ltd

INVESTORS Fund Services (Ireland) Ltd

Kim Europe Worldwide Fund

Kinma Far East Fund Plc

Ulster Bank Investment Services

The Wanger Investment Company PLC

Warburg Pincus Funds Plc

Yamaichi Samsung Dynamic Korea Fund

CoreStates Fund Management (Ireland) Ltd

Daiwa Europe Fund Mgrs Ireland Ltd



Murray Johnstone (Dublin) Ltd

Daiwa Europe Fund Mgrs Ireland Ltd - Contd.

Dragon Korea Fund Plc

### IRELAND (REGULATED)(**)

### ISLE OF MAN (FSA RECOGNISED)

### ISLE OF MAN (REGULATED)(**)

### JERSEY (FSA RECOGNISED)

### JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

Bank of Ireland Asset Mngmt (Jersey) Ltd

### LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Bank Von Ernst & Cie AG

GT Global

Mercury Asset Management - Contd.

Morgan Stanley Sicav

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

Friends Provident International

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

هكذا من الاصل



# FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Royal & Sun Alliance Int'l Financial Srvs

Royal Scandia Life Assurance Ltd

Asian Convertibles & Income Fd (Cayman)

Atlantico Investment Ltd

Atlantic Investment Management, Inc

Atlantis Fund Management (Guernsey) Ltd

Altos Real Estate Hedge Fund Limited

Julius Baer Bank & Trust Co Ltd

Banca Reig, S.A. (Principality of Andorra)

OTHER OFFSHORE FUNDS

# LONDON SHARE SERVICE

## ALCOHOLIC BEVERAGES

| | Notes | Price | + or - | 52 week high | 52 week low | Volume '000s | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Allied Domecq | [illegible] | [illegible] | -11 | [illegible] | 414 | 1,017 | 4.9 | 17.2 |
| Belhaven (H) | | [illegible] | -1½ | [illegible] | [illegible] | 25 | 5.6 | 14.5 |
| Burn Stewart | | 11 | [illegible] | [illegible] | [illegible] | 2 | 10.3 | - |
| Diageo | | [illegible] | -10½ | 785 | 422 | 2,628 | 3.7 | 26.4 |
| Glenmorangie A | | [illegible] | - | 975½ | 735 | - | 2.1 | 19.3 |
| B | | [illegible] | - | 1080 | 880 | - | 1.0 | 43.1 |
| Highland | † | 232 | - | 325 | 275 | 15 | 4.8 | 10.7 |
| 5½pc Cv Sb Bd | | [illegible] | - | 99½ | 85½ | - | 6.3 | - |
| Kirin Y | | [illegible] | +9½ | 588 | 416½ | - | 1.1 | - |
| Matthew Clark | | [illegible] | -1½ | 288 | 138 | 38 | 11.8 | 4.8 |
| Merrydown | | 35½ | [illegible] | 74½ | 35½ | - | - | Φ |
| Seagram C$ | | [illegible] | [illegible] | 228¼ | 178½ | - | 1.4 | - |

## BANKS, RETAIL

## BREWERIES, PUBS & REST

## BUILDING MATS. & MERCHANTS

## CHEMICALS

## CONSTRUCTION

## CONSTRUCTION - Continued

## DISTRIBUTORS

## DIVERSIFIED INDUSTRIALS

## ELECTRICITY

## ELECTRONIC & ELECTRICAL EQPT

## ENGINEERING

## ENGINEERING - Continued

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## ENGINEERING - Continued

## ENGINEERING, VEHICLES

## EXTRACTIVE INDUSTRIES

## FOOD PRODUCERS

## FOOD PRODUCERS - Continued

## GAS DISTRIBUTION

## HEALTH CARE

## HOUSEHOLD GOODS & TEXT

## INSURANCE

## INSURANCE - Continued

## INVESTMENT TRUSTS

## INVESTMENT TRUSTS - Continued

## INV TRUSTS SPLIT CAPITAL

# LONDON SHARE SERVICE

## OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

## MEDIA - Continued

## OIL EXPLORATION & PRODUCTION

## INVESTMENT COMPANIES

## OIL, INTEGRATED

## OTHER FINANCIAL

## LEISURE & HOTELS

## PAPER, PACKAGING & PRINTING

## LIFE ASSURANCE

## MEDIA

## PHARMACEUTICALS

## PROPERTY

## PROPERTY - Continued

## RETAILERS, FOOD

## RETAILERS, GENERAL

## RETAILERS, GENERAL - Continued

## SUPPORT SERVICES

## SUPPORT SERVICES - Continued

## TELECOMMUNICATIONS

## TOBACCO

## TRANSPORT

## TRANSPORT - Continued

## WATER

## AIM

## AIM - Continued

## AMERICANS

## CANADIANS

## SOUTH AFRICANS

## TRADED INDEX SECURITIES



## GUIDE TO LONDON SHARE SERVICE

## FT Free Annual Reports Club

## FT Company Focus / Focus Plus

## FT Cityline

## LONDON STOCK EXCHANGE

# Leaders finish lower despite big gains in the US

**MARKET REPORT**

By Steve Thompson,
UK Stock Market Editor

Dealers were perplexed at the London market's reluctance to respond to Wall Street's bullish return from the long US holiday weekend.

The FTSE 100 index ended a disappointing 2.8 lower at 5,344.2, having moved erratically throughout the session. At best, shortly after Wall Street opened, it was 52.8 ahead; at worst, in mid-morning, it was down 33.1.

However, good support emerged for the second-liners, represented by the FTSE 250 index, which posted a 57.4 gain at 4,804.5 and the FTSE SmallCap, up 17.3 at 2,102.2.

Wall Street's response to the big gains in global markets, in the wake of Alan Greenspan's comments on the outlook for US interest rates after the Asian/Russian crises, saw the Dow Jones Industrial Average surge 300 points in quick time.

But some of the heat in the US stock market faded. The Dow relinquished almost 100 points of its early gain. Old hands in London said Wall Street's surge had been expected and mostly accounted for during Monday's 180-point surge in the FTSE 100 index, the second-biggest points gain on record.

And they insisted the turbulence in global markets, which has seen Wall Street and most of the big European markets retreat almost 20 per cent from their all-time highs, was by no means over in the short term.

"We've had daily slumps and rallies and I'm sure we'll have many more in the short term," said one marketmaker.

He said London felt reasonably secure at current levels "as long as no more bombshells hit us", but he would be reluctant to chase prices much above current levels. He insisted, however, that 5,000 on the FTSE 100 offered a substantial support level.

Footsie never looked convincing yesterday, kicking off in tentative fashion despite good performances by Hong Kong and Tokyo, both of which moved up around one per cent.

Those gains were wiped out within an hour, however, with marketmakers becoming increasingly nervous about the fate of Russia, stronger-than-expected manufacturing and industrial output numbers, and after a spate of corporate profit warnings.

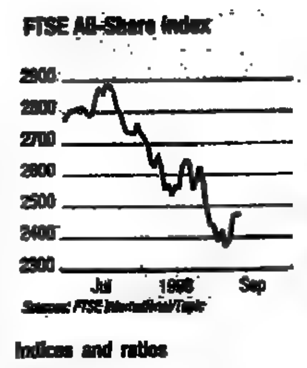
The latter came only from middle-ranking and small-cap stocks but caused some severe damage to sentiment, which had shown signs recently of recovering strongly, thanks to the latest burst of takeover activity.

The second-liners were said to have been boosted by the renewed weakness of sterling ahead of today's meeting of the Bank of England's monetary policy committee, which convenes to determine whether to shift domestic interest rates. There has been a growing chorus of calls for rates to be cut to head off recessionary pressures.

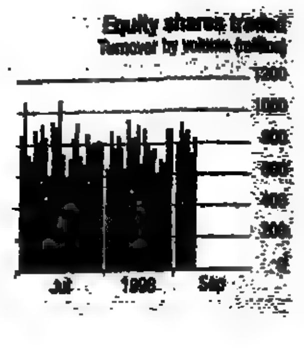
But few observers expect the monetary policy committee to succumb to those calls, with most expecting a reduction to be delayed for at least a month.

Turnover in equities was 837.1m shares, with FTSE 100 stocks accounting for just over half.

FTSE All-Share Index



Equity shares traded
Turnover by volume (million)



Source: FTSE International/Topic

**Indices and ratios**

| | | | | | |
|---|---|---|---|---|---|
| FTSE 100 | 5344.2 | -2.8 | FT 30 | 3360.6 | -20.0 |
| FTSE 250 | 4804.5 | +57.4 | FTSE Non-Fins p/e | 20.62 | 20.66 |
| FTSE 350 | 2554.2 | +4.3 | FTSE 100 Fut Sep | 5335.0 | -23.0 |
| FTSE All-Share | 2475.21 | +5.02 | 10 yr Gilt yield | 5.46 | 5.41 |
| FTSE All-Share yield | 3.18 | 3.22 | Long gilt/equity yld ratio | 1.99 | 1.98 |

| Best performing sectors | | Worst performing sectors | |
|---|---|---|---|
| 1 Tobacco | +18.4 | 1 Pharmaceuticals | -2.2 |
| 2 Construction | +3.7 | 2 Alcoholic Beverages | -1.8 |
| 3 Electronic & Elect Equip | +2.8 | 3 Extractive Industries | -1.8 |
| 4 Insurance | +2.2 | 4 Other Financial | -1.6 |
| 5 Life Assurance | +1.5 | 5 Diversified Industrials | -1.6 |

# Winning start by BAT

**COMPANIES REPORT**

By Martin Brice and Joel Kibazo

Determined buying by US fund managers produced a soaring performance from the new BAT following the demerger of the tobacco and insurance businesses.

BAT was the star of the market as the stock gained a stunning 38 per cent or 128¼ to 466p. However, the insurance offshoot AlliedZurich was down 30½ to 786p.

Analysts said the buying enthusiasm for the tobacco side, the new BAT, was prompted by the low rating at which the shares stood relative to its peer group.

At just 6.7 times this year's earnings forecast, the stock was cheap compared to its US rivals, while it was supported by its yield of 5.1 per cent.

Meanwhile, the litigation environment in the US was easing and the problems suffered by President Bill Clinton suggested the Democrats may have difficulties in forthcoming elections, which made a tightening of tobacco legislation less likely.

Nick Bunker, tobacco and insurance analyst at HSBC, has a price target of 560p on new BAT. He said: "Frankly, the overall investment outlook for tobacco stocks relative to the rest of the market is the best it has been for at least the past five years."

Meanwhile, the AlliedZurich stock had suffered along with other composite insurers.

The combined value of the shares after the demerger suggested a value of about 690p for the old BAT group.

The recent sell-off in engineering stocks was thrown sharply into reverse as a heavyweight analysis by Merrill Lynch highlighted the value in the sector and made several leading stocks the best performers in the market.

Paul Compton at the broker said: "The sector relative is nearly as low as it was in 1992. Either there is an almighty recession coming, or this sector is exceptionally undervalued."

His team examined the sector for the stocks that performed well in the 1989-92 period. Its recommendations centred on Weir, up 14 at 193½p; Morgan Crucible, which gained 14 to 298½p; IMI, which advanced 14 to 292½p with the help of good results; Smiths Industries, ahead 10 at 715p; and Rolls-Royce, up 7¾ at 199½p in some 28m traded.

Mr Compton told clients: "So heavy have the share price falls been in the sector that investors can typically buy twice as many shares for the same cost as a year ago. It is a case of buy one get one free."

However, it was not all good news. Charter suffered one of the worst performances in the market as the stock fell almost 13 per cent or 67½ to 463½p as it said the economic environment had reduced its expectations for the second half.

Geoff Allum at Henderson Crosthwaite said that, although Charter's figures were in line with expectations, "Charter has given the market an excuse to mark the shares down. They are oversold but it is difficult to see who will want to buy heavily with such uncertainty around."

Further signs of the chill wind blowing through UK high streets came as Marks and Spencer was reported to have met its 15 top suppliers yesterday to examine cutting the cost of making clothes through the greater use of foreign labour.

The meeting came just a day after Dewhirst Group, one of its suppliers, issued a profits warning that sent shares in the company and in M&S into retreat.

Sentiment was also hit by fears over stock levels at the high street retailer and the shares fell 21¼ to 496p. Volume was 12m.

Chairman Sir Richard Greenbury was said to have launched a damage limitation exercise to reassure investors about the company's performance in the summer, but the gloom continued among retail stocks. However, shares in M&S and other retailers had shown strength in recent weeks as investors focused on "defensive" stocks.

Richard Edwards at Salomon Smith Barney said: "Marks and Spencer is no longer the defensive stock it once was. It is increasingly exposed to lower-return overseas markets and facing increasing competition in both the food and clothing market in the UK."

### Switching Boots

He added: "In the context of an earnings decline this year, we recommend investors switch out of Marks and Spencer and into Boots." Several analysts indicated plans to downgrade current-year profit expectations.

Boots shares once again broke through the £10 barrier to close 30 up at £10.10. Those of Dewhirst bounced 2¼ to 108p.

House builders took heart from Taylor Woodrow results and the sector's strong performance helped the FTSE 250 advance. Building stocks were the four best performers in the MidCap index, with Barratt the best in the FTSE 250 as the shares rose 17 to 181½p. It was followed closely by Beazer, up 14½ at 157p, while Taylor Woodrow gained 14½ to 162½p and Redrow advanced 13½ to 158p.

On the outlook for the UK housing market, Taylor Woodrow said: "The buoyancy of the last 12 months has gone, but the outlook for the remainder of the year is still positive." It also said its housing operation had strong order books.

Enterprise Oil lost its momentum after Italian group Ente Nazionale Idrocarburi denied speculation it was interested in acquiring the UK's biggest independent oil explorer.

"In the current oil scenario, major oil companies are considering ways in which to concentrate their business activities with those of other companies. As of today, ENI has not identified specific opportunities to this end," said the Italian group.

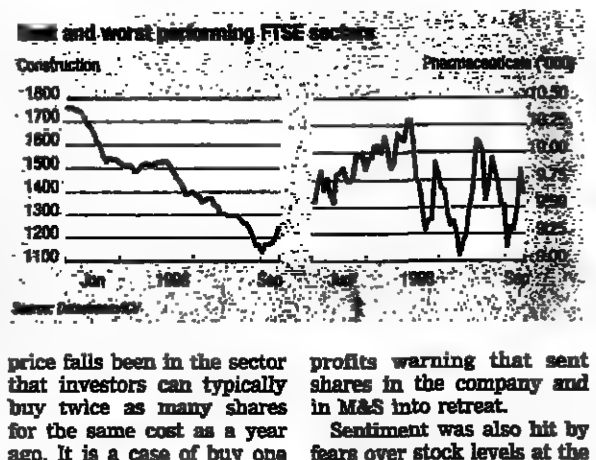
Having touched 376p, Enterprise shares closed 3 off at 347p, after trade of 3.5m.

Last week the company revealed a sharp decline in interim figures, blaming the retreat on the decline in international oil prices. Before exceptional items, half-year net profits were down 85 per cent to £12m and Enterprise warned the dividend was unsustainable.

The news late on Monday that Lasmo was to be replaced in the FTSE 100 index by AlliedZurich following the demerger of BAT Industries did little to dent enthusiasm for the stock yesterday.

The shares bucked the market trend to close 1½ up at 156½p, after trade of 5m.

Best and worst performing FTSE sectors



Source: Datastream/ICV

## FT 30 INDEX

| | Sep 8 | Sep 7 | Sep 4 | Sep 3 | Sep 2 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| FT 30 | 3360.6 | 3380.6 | 3284.3 | 3265.7 | 3343.0 | 3168.5 | 3984.0 | 3353.5 |
| Ord. div. yield | [illegible] | 3.18 | 3.27 | 3.29 | 3.22 | 3.55 | 4.22 | 2.72 |
| P/E ratio net | 21.04 | 21.09 | 20.51 | 20.39 | 20.84 | 20.65 | 25.41 | 15.80 |
| P/E ratio nil | [illegible] | [illegible] | 20.42 | 20.31 | 20.76 | 20.37 | 25.19 | 15.71 |

FT 30 since compilation: high 3933.3 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

| 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | High | Low |
|---|---|---|---|---|---|---|---|---|---|
| 3369.6 | 3375.2 | 3384.5 | 3371.9 | 3375.8 | 3391.3 | 3389.7 | 3377.5 | 3402.4 | 3353.5 |



## STOCK MARKET TRADING DATA

| | Sep 8 | Sep 7 | Sep 4 | Sep 3 | Sep 2 | Yr ago |
|---|---|---|---|---|---|---|
| SEAQ bargains | 62,357 | 54,018 | 50,269 | 57,705 | 74,249 | 36,300 |
| Equity turnover (£m)† | - | 2605.4 | 2845.5 | 2729.2 | 3236.1 | - |
| Equity bargains† | - | 45,363 | 38,945 | 42,596 | 56,658 | - |
| Shares traded (m)† | - | 718.8 | 762.7 | 895.3 | 805.7 | - |
| Total market bargains‡ | - | 54,876 | 51,278 | 59,063 | 75,717 | - |
| Total turnover (£m)‡ | - | 3524.2 | 3922.0 | 4031.2 | 4660.2 | - |
| Total shrs traded (m)‡ | *837.1 | 928.8 | 1009.2 | 963.7 | 1093.7 | - |
| Tradepoint turnover (£m) | 20.3 | 24.4 | 25.6 | 31.0 | 28.9 | 3.7 |
| Tradepoint shrs traded(m) | 7.8 | 8.0 | 10.0 | 7.3 | 8.6 | 0.8 |

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

| Rises and falls* | | 52 Week highs and lows | | LIFFE Equity options | |
|---|---|---|---|---|---|
| Total Rises | 1,160 | Total Highs | 10 | Total contracts | 35,007 |
| Total Falls | 436 | Total Lows | 105 | Calls | 17,813 |
| Same | 1,375 | | | Puts | 18,064 |

Sep 8 *Data based on Equity shares listed on the London Share Service.

## FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 5394.0 | 5335.0 | -23.0 | 5410.0 | 5298.0 | 34050 | 178411 |
| Dec | 5410.0 | 5411.0 | -20.0 | 5483.0 | 5394.0 | 6861 | 38543 |
| Mar | 5515.0 | 5480.0 | -20.0 | 5515.0 | 5515.0 | 200 | 1391 |

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | | 4805.0 | +63.0 | | | 0 | 1298 |
| Dec | 4828.0 | 4893.0 | +60.0 | 4828.0 | 4828.0 | 516 | 5895 |

FTSE 100 INDEX OPTION (LIFFE) (*5350) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 9,264 Puts 11,489 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

## LONDON RECENT ISSUES: EQUITIES

| Issue price p | Amt paid up | Mkt cap (£m) | 1998 High | 1998 Low | Stock | Close price p | +/- | Net div. | Div. cov. | Grs yld | P/E net |
|---|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | | | | |
| § | F.P. | 33.7 | 109 | 98 | Do Zero Div Pf | 99½ | | - | - | - | - |
| §32 | F.P. | 4.02 | 32½ | 30½ | †Parallel Pictures | 30½ | | - | - | - | - |
| §65 | F.P. | 3.98 | 66½ | 62½ | †Private & Comm Fin | 64 | | R0.8 | - | 1.2 | 25 |
| * | F.P. | 17.2 | 65½ | 37½ | †Sodra Petroleum | 42½ | | - | - | - | - |
| * | F.P. | 4.96 | 100½ | 90½ | †SuperRole | 90½ | | - | - | - | - |
| - | F.P. | - | 34 | 21½ | Syndicate Cap Wts 98/02 | 22½ | | - | - | - | - |
| - | F.P. | 176.2 | 304 | 152½ | Torotrak | 157½ | +10 | - | - | - | - |
| § | F.P. | 153.0 | 520½ | 504½ | Tribune IT Index | 510½ | +2½ | - | - | - | - |
| - | F.P. | - | 33½ | 32½ | Walker Greenbank B | 33 | | - | - | - | - |
| §2 | F.P. | 2.46 | 2½ | 2¼ | †Winslow | 2½ | | - | - | - | - |

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

## FTSE GOLD MINES INDEX

| | Sep 7 | % chg on day | Sep 4 | Year ago | Gross div yield % | P/E ratio | 52 week High | 52 week Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index(27) | 932.25 | +3.7 | 899.38 | 1397.44 | 2.12 | - | 1538.46 | 701.58 |
| Regional Indices | | | | | | | | |
| Africa (9) | 1045.80 | +8.9 | 961.84 | 1389.72 | 4.05 | 41.16 | 1528.29 | 705.60 |
| Australasia (7) | 993.46 | +7.9 | 920.53 | 1536.89 | 3.19 | 6.89 | [illegible] | 615.80 |
| Americas (11) | 885.39 | +0.4 | 881.85 | 1398.69 | 0.77 | 51.80 | 1574.18 | 647.09 |

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition. Markets closed 7/9/98: Canada and USA.

## FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

| | Sep 8 | Day's chge% | Sep 7 | Sep 4 | Year ago | Gross yield% | Net yield% | Net cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FTSE 100 | 5344.2 | -0.1 | 5347.0 | 5187.0 | 4950.5 | 3.09 | 2.82 | 1.99 | 20.30 | 112.85 | 2352.79 |
| FTSE 250 | 4804.5 | +1.2 | 4747.1 | 4663.3 | 4677.0 | 3.41 | 2.80 | 2.03 | 16.06 | 98.19 | 2071.31 |
| FTSE 250 ex Inv Tr | 4856.4 | +1.1 | 4801.5 | 4719.4 | 4688.4 | 3.50 | 2.97 | 2.10 | 17.01 | 101.39 | 2101.85 |
| FTSE 350 | 2554.2 | +0.2 | 2549.8 | 2471.2 | 2386.9 | 3.14 | 2.87 | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE 350 ex Inv Tr | 2561.2 | +0.1 | 2557.5 | 2478.2 | 2388.1 | 3.16 | 2.89 | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE 350 Higher Yield | 2478.9 | +0.6 | 2463.0 | [illegible] | 2305.4 | 4.22 | 3.68 | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE 350 Lower Yield | 2632.8 | -0.2 | 2636.4 | 2548.2 | [illegible] | [illegible] | 1.93 | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE SmallCap | 2102.24 | +0.8 | 2084.92 | 2069.23 | 2279.55 | 3.84 | 3.12 | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE SmallCap ex Inv Tr | 2087.58 | +0.7 | 2073.31 | 2063.57 | 2253.66 | 4.18 | 3.34 | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE All-Share | 2475.21 | +0.2 | 2470.19 | 2396.94 | 2333.11 | [illegible] | 2.89 | [illegible] | [illegible] | [illegible] | [illegible] |
| FTSE All-Share ex Inv Tr | 2485.54 | +0.2 | 2481.35 | 2407.34 | 2334.40 | 3.20 | 2.77 | [illegible] | [illegible] | [illegible] | [illegible] |

FTSE Actuaries Industry Sectors

| | Sep 8 | Day's chge% | Sep 7 | Sep 4 | Year ago | Gross yield% | Net yield% | Net cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 10 RESOURCES(22) | 3918.57 | -0.8 | 3947.34 | 3821.98 | 4949.28 | 3.89 | 3.38 | [illegible] | [illegible] | [illegible] | [illegible] |
| 12 Extractive Industries(6) | 2427.38 | -1.8 | 2470.62 | 2377.47 | 4244.38 | 5.80 | 5.28 | [illegible] | [illegible] | [illegible] | [illegible] |
| 15 Oil, Integrated(4) | 4924.58 | -0.8 | 4960.25 | 4412.73 | 5265.29 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 16 Oil Exploration & Prod(12) | 1998.80 | +1.2 | 1973.97 | 1951.47 | 3814.61 | 2.71 | 2.37 | [illegible] | [illegible] | [illegible] | [illegible] |
| 20 GEN INDUSTRIALS(215) | 1715.46 | +0.6 | 1705.62 | 1698.84 | 2063.58 | 4.25 | 3.74 | [illegible] | [illegible] | [illegible] | [illegible] |
| 21 Construction(38) | 1241.34 | +3.7 | [illegible] | 1178.05 | 1385.25 | 4.02 | 3.24 | [illegible] | [illegible] | [illegible] | [illegible] |
| 22 Building Matls & Merchs(29) | 1413.63 | +0.4 | 1407.57 | 1381.12 | [illegible] | 5.18 | 4.53 | [illegible] | [illegible] | [illegible] | [illegible] |
| 23 Chemicals(22) | 2021.81 | -0.9 | 2041.00 | 1988.05 | 2636.77 | 4.81 | 4.48 | [illegible] | [illegible] | [illegible] | [illegible] |
| 24 Diversified Industrials(7) | 998.44 | -1.6 | 1014.28 | 989.97 | [illegible] | 5.79 | 5.39 | [illegible] | [illegible] | [illegible] | [illegible] |
| 25 Electronic & Elect Equip(28) | 2516.80 | +2.8 | 2448.38 | 2281.52 | 2218.91 | 3.02 | 2.46 | [illegible] | [illegible] | [illegible] | [illegible] |
| 26 Engineering(69) | 2210.55 | -0.1 | 2213.05 | 2184.85 | 2798.11 | 4.38 | 3.85 | [illegible] | [illegible] | [illegible] | [illegible] |
| 27 Engineering, Vehicles(11) | 3274.61 | +0.3 | 3265.23 | 3220.93 | 3228.70 | 2.87 | 2.45 | [illegible] | [illegible] | [illegible] | [illegible] |
| 28 Paper, Pckg & Printing(22) | 1571.84 | -0.6 | 1581.02 | 1564.21 | 2204.13 | 5.84 | 5.12 | [illegible] | [illegible] | [illegible] | [illegible] |
| 30 CONSUMER GOODS(90) | 5522.43 | -0.6 | 5557.81 | 5384.06 | 4565.43 | 2.57 | 2.30 | [illegible] | [illegible] | [illegible] | [illegible] |
| 32 Alcoholic Beverages(6) | [illegible] | -1.8 | 3447.90 | 3302.33 | 3253.94 | 4.00 | 3.38 | [illegible] | [illegible] | [illegible] | [illegible] |
| 33 Food Producers(25) | 3623.70 | -0.1 | 3625.78 | 3542.74 | 3054.90 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 34 Household Goods & Tex(34) | 2513.25 | -0.3 | 2521.16 | 2576.32 | [illegible] | 4.40 | 3.92 | [illegible] | [illegible] | [illegible] | [illegible] |
| 36 Health Care(13) | 2253.47 | +0.6 | 2239.41 | 2214.07 | 2241.86 | 2.28 | 2.10 | [illegible] | [illegible] | [illegible] | [illegible] |
| 37 Pharmaceuticals(10) | 9634.02 | -2.2 | 9852.04 | 9460.05 | 7369.60 | 1.83 | 1.71 | [illegible] | [illegible] | [illegible] | [illegible] |
| 38 Tobacco(3) | 5973.55 | +18.4 | 5044.43 | 5811.52 | 4384.85 | 5.31 | 4.82 | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | | | | | | | | | | | |

Hourly movements

[illegible]



FTSE INTERNATIONAL

## TRADING VOLUME

Major Stocks yesterday

| | Vol 000's | Closing price | Day's change |
|---|---|---|---|
| 3i | 731 | 810½ | -7½ |
| AMVESCAP | 1,700 | 473 | -3 |
| ASDA Group | 8,200 | [illegible] | -4½ |
| Abbey National | 2,000 | 1124 | -18 |
| Alliance & Leicester | 1,000 | 856 | -6½ |
| Allied Domecq | 1,900 | 501 | [illegible] |
| [illegible] | | | |



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هكذا من الأصل



Highs & Lows shown on a 52 week basis

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Sep 8 / Sch)

BELGIUM/LUXEMBOURG (Sep 8 / Frs.)

CZECH REP (Sep 8 / Korun)

DENMARK (Sep 8 / Kr)

FINLAND (Sep 8 / Mka)

FRANCE (Sep 8 / Frs.)

GERMANY (Sep 8 / Dm.)

GREECE (Sep 8 / Drachma)

ITALY (Sep 8 / Lira)

NETHERLANDS (Sep 8 / Fls.)

NORWAY (Sep 8 / Kroner)

POLAND (Sep 8 / Zloty)

PORTUGAL (Sep 8 / Escudo)

SPAIN (Sep 8 / Pts.)

SWEDEN (Sep 8 / Kronor)

SWITZERLAND (Sep 8 / Frs.)

TURKEY (Sep 8 / TK Lira)



## PACIFIC

JAPAN (Sep 8 / Yen)

HONG KONG (Sep 8 / H.K.$)

INDONESIA (Sep 8 / Rupiah)

MALAYSIA (Sep 8 / MYR)

NEW ZEALAND (Sep 8 / NZ $)

SINGAPORE (Sep 8 / S$)

SOUTH KOREA (Sep 8 / Won)

TAIWAN (Sep 8 / TW $)

THAILAND (Sep 8 / Baht)

AUSTRALIA (Sep 8 / Aust$)

## AFRICA

SOUTH AFRICA (Sep 8 / Rand)

## AMERICAS

CANADA

TORONTO (Sep 8 / Can $) 4 pm close

MONTREAL (Sep 8 / Can $) 4 pm close

MEXICO (Sep 8 / Peso) 12:30 pm

## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | MONDAY SEPTEMBER 7 1998 US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | FRIDAY SEPTEMBER 4 1998 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (72) | 176.75 | 3.4 | 156.99 | 147.12 | 158.51 | 198.91 | 2.7 | 3.78 | 170.88 | 151.43 | 145.10 | 154.10 | 193.64 | 238.24 | 163.86 | 224.84 |
| Austria (22) | 188.86 | 3.2 | 167.84 | 157.29 | 169.46 | 169.37 | 2.6 | 2.00 | 183.09 | 162.24 | 155.47 | 165.11 | 165.01 | 253.73 | 181.80 | 200.18 |
| Belgium (22) | 374.23 | 0.8 | 332.40 | 311.50 | 335.61 | 328.44 | 0.2 | 2.09 | 371.33 | 329.05 | 315.31 | 334.86 | 327.74 | 398.52 | 234.33 | 246.36 |
| Brazil (26) | 122.15 | 0.0 | 108.49 | 101.67 | 109.54 | 264.86 | 0.0 | 4.44 | 122.15 | 108.24 | 103.72 | 110.15 | 264.86 | 308.58 | 122.15 | 279.17 |
| Canada (119) | 178.74 | 0.6 | 158.76 | 148.78 | 160.30 | 196.80 | -0.0 | 2.04 | 177.60 | 157.38 | 150.81 | 160.16 | 196.80 | 248.78 | 167.16 | 216.82 |
| Denmark (34) | 473.58 | 1.3 | 420.64 | 394.18 | 424.71 | 422.73 | 0.7 | 1.53 | 467.40 | 414.18 | 396.88 | 421.48 | 419.91 | 537.33 | 378.20 | 379.50 |
| Finland (28) | 411.14 | 3.5 | 365.18 | 342.22 | 368.71 | 452.82 | 2.9 | 2.03 | 397.37 | 352.13 | 337.43 | 358.35 | 440.09 | 506.46 | 267.59 | 298.66 |
| France (78) | 295.32 | 0.4 | 262.31 | 245.82 | 264.85 | 267.90 | -0.1 | 2.35 | 294.10 | 260.61 | 249.73 | 265.21 | 268.31 | 345.18 | 217.58 | 227.59 |
| Germany (55) | 265.89 | 2.6 | 236.26 | 221.40 | 238.54 | 238.54 | 2.1 | 1.33 | 259.18 | 229.67 | 220.08 | 233.73 | 233.73 | 325.61 | 204.89 | 224.27 |
| Greece (37) | 250.15 | 2.4 | 222.19 | 208.22 | 224.34 | 531.94 | 1.3 | 1.77 | 244.38 | 216.55 | 207.51 | 220.38 | 524.92 | 333.20 | 243.18 | - |
| Hong Kong, China (56) | 236.75 | 9.5 | 210.28 | 197.06 | 212.32 | 235.52 | 9.6 | 6.49 | 216.22 | 191.60 | 183.61 | 194.99 | 214.82 | 527.00 | 196.64 | 506.70 |
| Indonesia (28) | 28.50 | 5.8 | 25.32 | 23.72 | 25.56 | 187.75 | 3.8 | 3.48 | 26.94 | 23.87 | 22.87 | 24.29 | 180.95 | 174.57 | 23.58 | 168.95 |
| Ireland (16) | 396.15 | -0.7 | 351.86 | 329.74 | 355.27 | 383.92 | -1.4 | 2.47 | 399.00 | 353.57 | 338.81 | 359.81 | 389.16 | 560.44 | 359.60 | 371.21 |
| Italy (54) | 152.08 | 3.3 | 135.08 | 126.59 | 136.38 | 193.53 | 2.8 | 1.51 | 147.20 | 130.44 | 124.99 | 132.74 | 188.33 | 184.49 | 100.95 | 102.80 |
| Japan (480) | 89.23 | 5.8 | 79.26 | 74.27 | 80.02 | 74.27 | 3.7 | 1.06 | 84.32 | 74.72 | 71.60 | 76.04 | 71.60 | 125.38 | 78.40 | 123.39 |
| Malaysia (106) | 128.67 | 22.9 | 114.28 | 107.10 | 115.38 | 188.31 | 22.9 | 3.31 | 104.73 | 92.81 | 88.93 | 94.45 | 153.28 | 364.86 | 73.52 | 330.80 |
| Mexico (25) | 913.18 | 4.2 | 811.10 | 760.10 | 818.94 | 10148.94 | 4.5 | 2.69 | 876.00 | 776.26 | 743.86 | 789.98 | 9714.26 | 1801.98 | 873.28 | 1745.84 |
| Netherlands (27) | 472.42 | 1.1 | 419.61 | 393.23 | 423.67 | 419.86 | 0.6 | 2.20 | 467.29 | 414.08 | 396.80 | 421.40 | 417.49 | 562.38 | 385.58 | 409.10 |
| New Zealand (14) | 50.36 | 0.0 | 44.73 | 41.92 | 45.17 | 52.54 | -0.8 | 5.84 | 50.38 | 44.64 | 42.78 | 45.43 | 52.85 | 95.87 | 49.47 | 87.57 |
| Norway (37) | 226.72 | 5.1 | 201.38 | 188.72 | 203.33 | 237.02 | 5.1 | 2.88 | 215.68 | 191.12 | 183.15 | 194.50 | 225.58 | 374.84 | 208.82 | 333.95 |
| Philippines (22) | 47.66 | 4.6 | 42.33 | 39.67 | 42.74 | 102.51 | 3.4 | 1.59 | 45.56 | 40.37 | 38.68 | 41.08 | 99.21 | 115.62 | 45.56 | 108.48 |
| Portugal (18) | 248.97 | 1.6 | 221.14 | 207.24 | 223.28 | 300.94 | 0.9 | 1.08 | 245.14 | 217.23 | 208.16 | 221.07 | 298.24 | 299.39 | 235.61 | - |
| Singapore (41) | 112.62 | 9.9 | 100.03 | 93.74 | 100.99 | 89.66 | 8.6 | 3.37 | 102.45 | 90.79 | 87.00 | 92.39 | 82.55 | 331.17 | 102.45 | 310.20 |
| South Africa (39) | 172.04 | 5.1 | 152.81 | 143.20 | 154.29 | 231.45 | 4.0 | 3.68 | 163.64 | 145.00 | 138.95 | 147.57 | 222.63 | 346.20 | 151.55 | 343.26 |
| Spain (31) | 328.55 | 1.6 | 291.82 | 273.47 | 294.84 | 364.50 | 1.0 | 2.09 | 323.37 | 286.55 | 274.59 | 291.61 | 360.75 | 417.73 | 236.28 | 261.20 |
| Sweden (48) | 493.53 | 1.9 | 438.36 | 410.80 | 442.60 | 579.27 | 1.8 | 2.02 | 484.21 | 429.07 | 411.16 | 436.65 | 569.31 | 628.19 | 438.98 | 488.60 |
| Switzerland (26) | 385.46 | -3.4 | 342.37 | 320.84 | 345.68 | 337.17 | 2.5 | 1.24 | 372.73 | 330.29 | 316.50 | 336.12 | 328.92 | 439.46 | 290.19 | 302.91 |
| Thailand (36) | 10.22 | 19.8 | 9.08 | 8.51 | 9.17 | 16.12 | 19.4 | 5.85 | 8.53 | 7.56 | 7.25 | 7.70 | 13.51 | 45.52 | 8.15 | 39.72 |
| United Kingdom (209) | 346.95 | 3.0 | 308.16 | 288.79 | 311.14 | 308.16 | 3.3 | 3.22 | 336.73 | 298.39 | 285.93 | 303.66 | 298.39 | 401.84 | 303.41 | 311.04 |
| USA (624) | 396.50 | 0.0 | 352.17 | 330.03 | 355.58 | 396.50 | 0.0 | 1.65 | 396.50 | 351.35 | 336.68 | 357.56 | 396.50 | 485.88 | 358.31 | 378.02 |
| Americas (796) | 353.98 | 0.1 | 314.41 | 294.64 | 317.45 | 300.11 | 0.0 | 1.68 | 353.82 | 313.54 | 300.45 | 319.08 | 300.06 | 437.03 | 326.79 | 345.37 |
| Europe (745) | 327.12 | 2.3 | 290.55 | 272.28 | 293.36 | 301.06 | 2.0 | 2.26 | 319.64 | 283.24 | 271.42 | 288.25 | 295.10 | 386.24 | 288.89 | 273.74 |
| Eurobloc (251) | 94.36 | 1.7 | 83.81 | 78.54 | 84.62 | 91.55 | 1.2 | 1.86 | 92.78 | 82.19 | 78.76 | 83.65 | 90.50 | 113.28 | 90.92 | - |
| Nordic (148) | 445.33 | 2.3 | 395.54 | 370.67 | 399.37 | 450.22 | 2.0 | 1.98 | 435.24 | 385.68 | 369.58 | 392.50 | 441.44 | 555.97 | 380.51 | 417.56 |
| Pacific Basin (863) | 94.07 | 6.1 | 83.55 | 78.30 | 84.36 | 79.76 | 4.4 | 1.79 | 88.64 | 78.55 | 75.27 | 79.94 | 76.43 | 142.11 | 83.29 | 139.88 |
| Euro-Pacific (1608) | 191.10 | 3.4 | 169.73 | 159.06 | 171.37 | 163.00 | 2.7 | 2.13 | 184.86 | 163.81 | 156.97 | 166.70 | 158.77 | 220.19 | 172.03 | 195.22 |
| North America (743) | 382.08 | 0.0 | 339.35 | 318.01 | 342.63 | 382.88 | 0.0 | 1.66 | 381.97 | 338.47 | 324.34 | 344.45 | 382.88 | 469.20 | 349.06 | 367.98 |
| Europe Ex. UK (536) | 306.08 | 2.0 | 271.87 | 254.78 | 274.50 | 288.30 | 1.4 | 1.79 | 300.07 | 265.91 | 254.81 | 270.60 | 284.34 | 366.32 | 236.86 | 247.26 |
| Europe Ex. Eurobloc (394) | 89.59 | 3.0 | 79.57 | 74.57 | 80.34 | 88.64 | 2.9 | 2.65 | 86.99 | 77.09 | 73.87 | 78.45 | 86.13 | 103.03 | 86.54 | - |
| Europe Ex. UK Ex. Eurobloc (185) | 92.12 | 2.9 | 81.83 | 76.68 | 82.62 | 89.58 | 2.2 | 1.51 | 89.53 | 79.34 | 76.02 | 80.74 | 87.84 | 109.21 | 87.93 | - |
| Pacific Ex. Japan (383) | 146.38 | 7.4 | 130.01 | 121.84 | 131.27 | 155.15 | 7.8 | 4.78 | 136.31 | 120.79 | 115.75 | 122.92 | 145.00 | 287.15 | 128.28 | 275.08 |
| World Ex. Eurobloc (2094) | 86.40 | 1.6 | 76.74 | 71.92 | 77.48 | 86.58 | 1.3 | 1.91 | 85.06 | 75.37 | 72.23 | 76.71 | 85.49 | 103.16 | 83.83 | - |
| World Ex. US (1821) | 190.12 | 3.3 | 168.87 | 158.25 | 170.50 | 166.82 | 2.5 | 2.15 | 184.12 | 163.15 | 156.34 | 166.04 | 162.66 | 221.91 | 175.30 | 198.57 |
| World Ex. UK (2236) | 248.13 | 1.4 | 220.39 | 206.54 | 222.53 | 225.59 | 1.0 | 1.74 | 244.64 | 216.79 | 207.74 | 220.62 | 223.43 | 298.02 | 234.24 | 251.46 |
| World Ex. Japan (1965) | 339.85 | 1.1 | 301.85 | 282.97 | 304.67 | 332.38 | 1.0 | 2.00 | 336.17 | 297.89 | 285.46 | 303.15 | 329.18 | 411.23 | 309.33 | 324.32 |
| The World Index (2445) | 256.51 | 1.6 | 227.84 | 213.51 | 230.04 | 233.14 | 1.3 | 1.90 | 252.47 | 223.72 | 214.38 | 227.67 | 230.24 | 306.59 | 241.30 | 256.61 |



## Emerging markets: IFC investable indices

Dollar terms

| Sep 7 Market | | Day's chg % | % Chg since 31/12/97 |
|---|---|---|---|
| **Latin America** | | | |
| Argentina | 671.16 | +6.0 | -39.8 |
| Brazil | 248.23 | | -48.6 |
| Chile | 372.04 | +1.1 | -42.1 |
| Colombia[1] | 328.68 | +1.1 | -60.2 |
| Mexico | 390.09 | +3.6 | -49.4 |
| Peru[2] | 146.34 | +2.5 | -33.9 |
| Venezuela[3] | 260.81 | +0.3 | -71.5 |
| **East Asia** | | | |
| China[4] | 27.83 | +5.8 | -58.0 |
| India[5] | 84.57 | +2.6 | -22.5 |
| Indonesia[6] | 14.19 | +4.4 | -57.8 |
| Korea[6] | 26.56 | +4.9 | +16.5 |
| Malaysia | 72.14 | +23.3 | -20.9 |
| Pakistan[8] | 97.23 | +1.8 | -60.9 |
| Philippines | 68.16 | +5.2 | -38.6 |
| Sri Lanka[10] | 58.57 | +1.4 | -45.7 |
| Taiwan, China[8] | 106.25 | +6.5 | -24.7 |
| Thailand | 34.71 | +9.3 | -36.2 |
| **Europe** | | | |
| Czech Rep | 45.04 | +3.2 | -17.7 |
| Greece | 449.54 | +2.5 | +38.8 |
| Hungary[11] | 209.47 | +3.0 | -33.4 |
| Poland[12] | 905.15 | +6.2 | -15.3 |
| Portugal | 277.43 | +1.4 | +31.4 |
| Russia | 21.16 | -1.4 | -85.8 |
| Slovakia | 58.06 | -0.5 | -40.4 |
| Turkey[14] | 162.04 | +0.6 | -48.1 |
| **Mideast/Africa** | | | |
| Egypt | 70.30 | +2.4 | -24.7 |
| Israel | 109.74 | +3.4 | -9.8 |
| Jordan | 229.91 | +0.2 | +9.3 |
| Morocco | 182.53 | +0.1 | +40.1 |
| S Africa[15] | 110.08 | +4.3 | -38.8 |
| Zimbabwe[16] | 127.85 | -8.5 | -49.2 |
| **Regions** | | | |
| Composite | 158.35 | +4.4 | -35.8 |
| Latin America | 356.61 | +2.3 | -47.4 |
| Asia | 80.28 | +8.3 | -25.5 |
| EMEA | 104.09 | +2.6 | -39.5 |
| Europe | 131.99 | +1.8 | -30.0 |
| Eastn Europe | 90.53 | +2.6 | -64.0 |
| ME & Africa | 50.79 | +3.5 | -29.0 |

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1993; (15)Sep 2 1993; (16) July 2 1993.

4 pm close September 8

# NEW YORK STOCK EXCHANGE PRICES

[illegible]



*Price data supplied by Extel, part of FT Information.*

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.

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# GLOBAL EQUITY MARKETS

## US INDICES

| Dow Jones | Sep 4 | Sep 3 | Sep 2 | 1998 High | 1998 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 7640.25 | 7682.22 | 7782.37 | 9337.97 (17/7) | 7539.07 (31/8) | 9337.97 (17/7/98) | 41.22 (8/7/32) |
| Home Bonds | 105.00 | 105.22 | 105.19 | 105.45 (15/1) | 104.42 (11/5) | 105.46 (15/1/98) | 54.99 (1/10/81) |
| Transport | 2610.75 | 2624.47 | 2702.56 | 3686.02 (16/4) | 2616.75 (4/9) | 3686.02 (16/4/98) | 13.23 (8/7/32) |
| Utilities | 271.57 | 272.36 | 272.87 | 285.49 (8/7) | 262.86 (6/1) | 285.49 (6/7/98) | 10.53 (8/7/32) |

DJ Ind. Day's high 7801.29 (7841.58) Low 7450.24 (7499.68) (Theoretical§)
Day's high 7780.75 (7781.34) Low 7495.81 (7578.49) (Actual§)

| Standard and Poors | Sep 4 | Sep 3 | Sep 2 | 1998 High | 1998 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite‡ | 973.89 | 982.26 | 990.48 | 1186.75 (17/7) | 927.69 (9/1) | 1186.75 (17/7/98) | 4.40 (1/6/32) |
| Industrials‡ | 1165.73 | 1170.34 | 1175.34 | 1380.46 (17/7) | 1077.40 (9/1) | 1380.46 (17/7/98) | 3.52 (30/6/32) |
| Financial‡ | 102.89 | 106.58 | 108.89 | 147.89 (14/7) | 102.89 (4/9) | 147.89 (14/7/98) | 7.13 (4/8/74) |
| **Others** | | | | | | | |
| NYSE Comp. | 488.31 | 490.68 | 494.83 | 600.76 (17/7) | 480.89 (31/8) | 600.76 (17/7/98) | 4.64 (25/4/42) |
| Amex Comp. | 602.71 | 598.70 | 602.81 | 753.87 (22/4) | 585.07 (31/8) | 753.87 (22/4/98) | 524.20 (16/7/96) |
| NASDAQ Comp | 1566.52 | 1571.88 | 1592.85 | 2014.25 (20/7) | 1499.22 (31/8) | 2014.25 (20/7/98) | 54.87 (3/10/74) |
| Russell 2000 | 347.07 | 348.29 | 352.66 | 491.41 (21/4) | 337.95 (31/8) | 491.41 (21/4/98) | 128.35 (7/12/93) |

### RATIOS

| | Sep 4 | Aug 28 | Aug 21 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 1.95 | 1.84 | 1.44 | 1.87 |
| | Sep 2 | Aug 26 | Aug 19 | Year ago |
| S & P Ind. Div. yield | 1.47 | 1.35 | 1.32 | 1.62 |
| S & P Ind. P/E ratio | 28.84 | 30.83 | 31.05 | 25.11 |

## US DATA

### MARKET ACTIVITY

| ● Volume (million) | Sep 4 | Sep 3 | Sep 2 |
|---|---|---|---|
| NYSE | 780.370 | 888.580 | 894.690 |
| Amex | 38.298 | 40.420 | 36.783 |
| NASDAQ | 828.724 | 750.866 | 843.090 |

| NYSE | Sep 4 | Sep 3 | Sep 2 |
|---|---|---|---|
| Issues Traded | 3,499 | 3,520 | 3,535 |
| Rises | 1,475 | 1,001 | 1,871 |
| Falls | 1,516 | 2,084 | 1,256 |
| Unchanged | 488 | 425 | 407 |
| New Highs | 12 | 11 | 20 |
| New Lows | 382 | 405 | 282 |

### NYSE TRADING ACTIVITY — Volume : 780,370,000

| ACTIVE STOCKS Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Travlr | 13,781,200 | 39¼ | -1⅝ |
| Chysell | 11,272,700 | 45⅛ | -4 |
| Telebras | 8,785,300 | 60¼ | -4¼ |
| PhMorr | 8,643,200 | 42 | -⅜ |
| Chicp | 8,608,400 | 82¼ | -6¼ |
| GenElec | 8,172,400 | 79⅝ | -2⅝ |
| Pfizer | 7,736,100 | 95⅞ | -4⅞ |
| PhRMES | 7,556,400 | 35 | -1⅛ |
| LucentTch | 7,562,100 | 75⅝ | -2⅝ |
| Bolstob | 5,838,100 | 50 | +2⅝ |

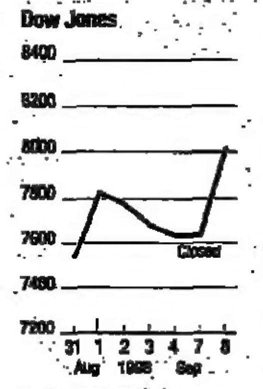
| BIGGEST MOVERS Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Newmont | 21⅞ | +3¼ | +19.5 |
| Global Mar | 11¼ | +1⅞ | +18.8 |
| Newmont | 20 | +2¼ | +15.9 |
| Fila | 10⅝ | +1⅜ | +14.1 |
| **Downs** | | | |
| EquCon | 42½ | -6⅛ | -13.4 |
| PSTPLUS | 20 | -3 | -13.0 |
| Frnklin | 28⅜ | -3⅜ | -10.6 |
| Ahmsn | 51⅛ | -4⅞ | -8.8 |

### NASDAQ TRADING ACTIVITY — Volume :828,724,000

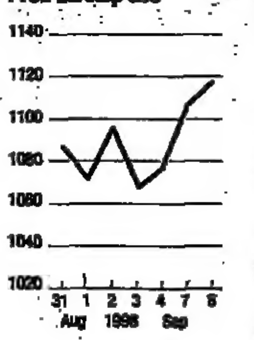
| ACTIVE STOCKS Friday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| DellComp | 20,178,400 | 108½ | +1⅛ |
| CmbTch | 18,480,900 | 27⅝ | -7⅛ |
| Intel | 15,955,000 | 78⅛ | +1⅛ |
| Micsft | 12,718,400 | 98⅛ | -2⅝ |
| CiscoSys | 12,162,600 | 86⅝ | -1⅛ |
| WrldCm | 10,948,400 | 45⅛ | -1⅛ |
| Oracle | 8,443,800 | 20⅜ | +1⅛ |
| PeopSoft | 7,295,700 | 30⅜ | +1⅛ |
| TCI GpA | 6,954,800 | 35⅛ | +2⅛ |
| 3Com | 5,985,700 | 23⅝ | -⅞ |

| BIGGEST MOVERS Friday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Synetic | 43½ | +6½ | +17.8 |
| Avant Cp | 15⅝ | +2¼ | +17.5 |
| VertexPh | 20⅛ | +2⅛ | +14.0 |
| Cal Dive | 14 | +1⅝ | +13.1 |
| **Downs** | | | |
| CmbTch | 27⅝ | -7⅛ | -22.1 |
| ImpCrn | 11⅜ | -2⅝ | -18.7 |
| Hologic | 11 | -2 | -15.4 |
| Pennfwtr | 19 | -2½ | -11.8 |

Dow Jones




FTSE Eurotop 300




## JAPAN

| | Sep 8 | Sep 7 | Sep 4 | 1998 High | 1998 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Nikkei 225 | 14913.49 | 14790.06 | 14042.91 | 17264.34 | 13915.63 | 38915.8 | 85.25 |

Day's high: 15294.26. Day's low: 14766.93.

### TOKYO TRADING ACTIVITY — Volume : 490,000,000

| ACTIVE STOCKS Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Toa Steel | 17,786,000 | 3 | |
| Sakura Bank | 10,536,000 | 283 | -1 |
| Np Steel Cp | 10,268,000 | 226 | -8 |
| Fuji Bank | 10,207,000 | 368 | +8 |
| Hitachi | 9,478,000 | 620 | -4 |
| Bk To.-Mitsubi | 9,190,000 | 1090 | -8 |
| LTCB | 8,273,000 | 52 | +2 |
| NKK Cp | 7,606,000 | 101 | +2 |
| Toshiba Co | 7,053,000 | 470 | -13 |
| Mitsui T&B | 6,038,000 | 185 | +2 |

| BIGGEST MOVERS Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Shimo Co Lse | 360 | +50 | +16.1 |
| Tetra | 230 | +29 | +14.4 |
| Toa Wool Spn | 137 | +17 | +14.2 |
| Nihon Kent | 295 | +33 | +12.6 |
| **Downs** | | | |
| Np Felt | 325 | -45 | -12.2 |
| Shnp Spt St | 114 | -14 | -10.9 |
| Np Yakin Kgy | 54 | -6 | -10 |
| Tatsn Rotec | 175 | -19 | -9.8 |

## FRANCE

| | Sep 8 | Sep 7 | Sep 4 | 1998 High | 1998 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| CAC 40 | 3803.74 | 3695.35 | 3690.75 | 4388.48 | 2962.54 | 4388.48 | 984.61 |

Day's high: 3812.41. Day's low: 3704.47

### PARIS TRADING ACTIVITY — Volume : 571,460,530

| ACTIVE STOCKS Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Usinor | 1,497,935 | 62.15 | +0.6 |
| Comptoirs | 1,298,093 | 3682 | +397 |
| FrTelc | 1,249,033 | 447 | +16 |
| Paribas | 1,217,616 | 472 | +11 |
| BNP | 1,212,745 | 393 | +26.5 |
| Alcatel | 1,129,054 | 1052 | +68 |
| Axa | 1,104,658 | 596 | +12 |
| Schndr | 1,045,776 | 339.5 | +23 |
| RhonPA | 1,031,759 | 284.5 | +11.6 |
| TotalB | 642,253 | 635 | +5 |

| BIGGEST MOVERS Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| Comptoirs | 3682 | +397 | +12.1 |
| Ciment | 331 | +25.5 | +8.3 |
| ThmCSF | 211 | +15.5 | +7.9 |
| Renault | 266.1 | +18.9 | +7.6 |
| **Downs** | | | |
| Dorsfiy | 242 | -10.5 | -4.4 |
| SAT | 2380 | -123 | -4.9 |
| CrFonf | 73.1 | -2.6 | -3.3 |
| Chrgrz | 362 | -11.9 | -3.1 |

## GERMANY

| | Sep 8 | Sep 7 | Sep 4 | 1998 High | 1998 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| DAX | 5103.84 | 4823.37 | 4820.25 | 6171.43 | 4287.28 | 6171.43 | 931.15 |

Day's high: 5104.78. Day's low: 4861.62.

### FRANKFURT TRADING ACTIVITY — Volume : 11,536,347

| ACTIVE STOCKS Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Lufthan | 965,098 | 41 | -0.5 |
| Bayer | 745,462 | 68 | +1.5 |
| Daimlr | 691,442 | 161.7 | -1.3 |
| Dt Tel | 590,409 | 54 | +1.4 |
| Dt Bk | 577,475 | 114.25 | +6.25 |
| Mannsm | 499,156 | 182 | +13.5 |
| BASF | 477,240 | 68.4 | +1.2 |
| Dresdb | 413,138 | 77.5 | +3.5 |
| Siemns | 389,744 | 120.1 | +1.8 |
| VW | 354,236 | 132 | +6 |

| BIGGEST MOVERS Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| KlbnPr | 49.5 | +8.5 | +20.7 |
| MAN | 539 | +58 | +12.1 |
| Ind Wk | 36.7 | +3.5 | +10.5 |
| MAN PV | 374 | +35 | +10.3 |
| **Downs** | | | |
| Douglr | 92.1 | -3.9 | -4.1 |
| JngbPf | 295 | -10 | -3.3 |
| AIG | 82 | -1.9 | -2.3 |
| SenLub | 251 | -6 | -2.2 |

## UK

| | Sep 8 | Sep 7 | Sep 4 | 1998 High | 1998 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| FTSE 100 | 5344.2 | 5347.0 | 5107.0 | 6179.00 | 5068.60 | 6179 | 986.9 |

Day's high: 5399.5 Day's low: 5313.0

### LONDON TRADING ACTIVITY — Volume : 837,190,000

| ACTIVE STOCKS Tuesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Rolls Royce | 20,537,218 | 189½ | +7½ |
| Centrica | 14,627,530 | 97½ | +3 |
| BP | 14,381,680 | 796 | -12 |
| GEC | 14,047,300 | 486 | +17 |
| Tesco | 13,536,670 | 169 | -1 |
| Mrks & Spnr | 12,855,140 | 468 | -21½ |
| Shell T&T | 12,058,700 | 368 | +1½ |
| ICI | 11,601,980 | 781½ | +22 |
| Std Chard | 10,969,540 | 464 | +16 |
| Lloyds TSB | 9,563,508 | 727 | +14 |

| BIGGEST MOVERS Tuesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| **Ups** | | | |
| VCI | 79½ | +29 | +58.6 |
| FSD Grp | 335 | +75 | +29.9 |
| Corp. Expr | 27 | +7 | +25 |
| Airtech | 27 | +4½ | +20 |
| **Downs** | | | |
| Astec (BSR) | 40 | -14½ | -22.3 |
| Staffware | 337½ | -75 | -18.2 |
| Brammer | 416 | -71½ | -14.7 |
| Hampden Grp | 47½ | -7 | -12.8 |

## INDEX FUTURES

| S&P 500 | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 977.00 | 1025.50 | +48.50 | 1027.00 | 986.00 | 181,898 | 331,469 |
| Dec | 1012.00 | 1036.00 | - | 1036.00 | 1006.00 | 26,428 | 89,017 |
| **Nikkei 225** | **Open** | **Sett price** | **Change** | **High** | **Low** | **Est. vol.** | **Open int.** |
| Sep | 14870.0 | 14870.0 | -60.0 | 15310.0 | 14830.0 | 51,980 | 150,058 |
| Dec | 14790.0 | 14780.0 | -50.0 | 15240.0 | 14770.0 | 21,106 | 119,661 |

Open interest figures for previous day.

| CAC-40 (200 x Index) | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 3736.0 | 3811.0 | +75.0 | 3823.0 | 3718.0 | 62,545 | 196,000 |
| Dec | 3804.5 | 3840.5 | +73.0 | 3841.0 | 3804.5 | 82 | 21,650 |
| **DAX** | | | | | | | |
| Sep | 4985.5 | 5105.0 | +145.0 | 5127.0 | 4938.5 | 31,628 | 84,044 |
| Dec | 5021.0 | 5136.0 | +150.5 | 5155.0 | 4965.0 | 2,171 | 11,264 |

| OMX | Open | Sett Price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 660.00 | 676.00 | +18.00 | 678.25 | 651.00 | 44,703 | 144,613 |
| Oct | 665.50 | 677.50 | +19.00 | 678.00 | 665.50 | 987 | 219 |
| **SOFFEX** | | | | | | | |
| Sep | 6886.2 | 7045.0 | +184.0 | 7084.9 | 6822.0 | 7,423 | 21,740 |

## WORLD MARKETS AT A GLANCE

[illegible]

# THE NASDAQ STOCK MARKET

4 pm close September 8

[illegible]

# THE NASDAQ STOCK MARKET

[illegible]

# AMEX PRICES

4 pm close September 8

[illegible]

# EASDAQ

[illegible]

# STOCK MARKETS

# Rested Wall Street back in rallying mood

**WORLD OVERVIEW**

Wall Street roared back into life after the Labour day holiday weekend, giving further impetus to the fledgling rally in global markets, *writes Philip Coggan*.

New York had been closed on Monday when markets in Asia and Europe rallied strongly, with the help of weekend comments from Alan Greenspan, chairman of the US Federal Reserve, which suggested that US interest rates were as likely to fall as to rise.

There was thus a lot of pent-up buying pressure in the US stock market and the Dow Jones Industrial Average gained 280 points in the first few minutes of trading. The rise became 300 points later in the morning, with the recently battered financial and technology stocks in the forefront.

Europe could not resist the upward pressure from across the Atlantic, particularly as Asia, with the exception of Malaysia and Thailand, had a steady day. Concerns about Russia, where the Duma voted against Victor Chernomyrdin as prime minister for the second time late on Monday, were pushed into the background.

Both the CAC 40, sluggish on Monday, and the Dax gained around 3 per cent, with some of the smaller European markets, such as Helsinki and Dublin, performing even better. However, several rallies have petered out since the correction began in mid-July.

The European strategy team at Dresdner Kleinwort Benson said: "We are buyers of European equities. The recent falls have gone some way to discount the key problem – over-inflated growth forecasts."

Dresdner has left its year-end and 12-month market forecasts unchanged, and adds: "Valuation concerns are being misdirected. Growth stocks and sectors profit most from tumbling bond yields. The real pain will be felt by the cyclical sectors pregnant with the downgrade risks."

Most strategists seem to agree that the key issue in deciding whether the recent correction becomes a fully fledged bear market is whether the US economy falls into recession in 1999 as a result of the emerging markets crisis.

"If deflation is avoided, Wall St can emerge from its current corrective phase on a platform of more realistic earnings expectations and very solid relative valuation support," believes the ING Barings emerging markets team.

"Despite the clarion calls of the bears, this remains the most likely outcome. The knock to emerging market growth prospects is significant but does little to alter the long-term growth potential of the US economy."

# Dow soars as hopes grow of rate cut

**AMERICAS**

US shares surged in early trading, rising by more than 300 points at one stage, as investors returned from the long holiday weekend full of enthusiasm about the outlook for interest rates, *writes John Labate in New York*.

Financial and technology shares were among the sharpest gainers, with financial services group Travelers leading the Dow Jones Average higher with a gain of more than 8 per cent to $42½.

Speculation mounted about the sustainability of the morning rally, with many stocks trading lower by early afternoon. But the breadth of stock buying and high volume allowed many to suspect that the market would not sell off by the closing bell. Such a move, all agreed, would be an ominous sign for a volatile market.

By midday, the Dow had gained 229.40 or 3 per cent to 7,869.65. The broader Standard & Poor's 500 was 25.43 higher to 999.32.

The Nasdaq composite, which is weighted in high-tech shares, had gained more than 3.8 per cent or 59.98 at 1,626.50. Small-company shares were also sharp gainers, with the Russell 2000 up 12.17 to 359.24.

In the Dow, American Express rose 7.7 per cent or $5 11/16 at $79 5/16. Walt Disney had gained more than 6 per cent to $28⅞.

In contrast, US Treasuries fell back, with the benchmark 30-year bond down ¾ to 102 13/32, yielding 5.338 per cent.

Banking shares rebounded across the board, with the Philadelphia banking index up 4.55 per cent to 655.99.

Citicorp was up more than 7 per cent to $99 11/16.

Investors also took transport shares higher. Continental Airlines climbed $2 13/16 to $40 5/16 and AMR, parent company of American Airlines, rose $2 11/16 to $52 11/16. Northwest Airlines was also higher, up $¾ to $27¼, despite the lack of a settlement in the labour strike against the company.

High-tech shares also made substantial gains, especially among many of the second-tier companies. Analog Devices surged 10 per cent to $14¾ and Ascend Communications gained $4¾ to $43¼.

**TORONTO** tracked Wall Street, moving rapidly ahead in early trading in good volumes on the back of a broad-based wave of buying. At noon, the 300 composite index was 171.59 or 3 per cent higher at 5,914.10.

Brokers said the main boost to sentiment was coming from the weaker dollar, which had helped commodity prices to rally.

Talk of lower US interest rates was also said to have relieved the pressure on the Canadian dollar.

Banks provided some of the morning's stronger gains. Royal Bank of Canada added C$2.60 at C$60.80 and Bank of Nova Scotia gained C$1.15 to C$26. Canadian Imperial, which saw some of the heaviest turnover, rose C$1.05 to C$29.80.

Among industrials, Newbridge Networks advanced C$2.25 to C$31.75 and Alcan Aluminium pushed up 55 cents to C$35.25. Bombardier hardened 40 cents to C$19.50 on news of a C$310m contract for 10 regional aircraft.

Golds were a rare weak feature.

## Cutbacks hit São Paulo

**SAO PAULO** rapidly reversed initial gains on news of a significant cutback in government spending.

Market heavyweight Telebrás, which shot up 7 per cent at the opening as Wall Street surged, was off 1 per cent at R$713 by midsession, helping to push the Bovespa index down 100 at 5,737.

Brokers said investor optimism faded instantly on the announcement of the fiscal changes.

The real improved in foreign exchanges on the news that 1998 social and infrastructure spending was to be cut by R$4bn, but shares moved determinedly in the opposite direction.

**MEXICO CITY** also lost ground. Brokers blamed the adverse trend in Brazil. "The impact of [Brazilian] spending cuts could well wash over onto economic activity in this country," said one dealer.

The IPC index, which shot ahead by 4.9 per cent on Monday, was down 36.31 at 3,158.23 at midsession.

# Banks lead Frankfurt higher

**EUROPE**

A sharp rise in machinery maker Man and a strong afternoon rally by the banks drove **FRANKFURT** higher, sending the Xetra Dax index briefly through key resistance at 5,100 points.

The index made an optimistic start in the wake of satisfactory performances in Asia and found support in Wall Street's early surge. By the close of electronic trade, the Xetra was up 149.88 or 3 per cent at 5,095.62.

Man led the advance with a rise of 12 per cent after the machinery maker unveiled a much better than expected 75 per cent rise in full-year net profit. The company also forecast further sales and earnings growth this year.

The shares climbed DM57 to DM539 after the company said the rise in profits was largely due to a recovery at its printing press division after years of losses, and to brisker economic growth in Germany.

Analysts noted that the shares had been sharp underperformers, losing 38 per cent since reaching a high for the year on July 8. During the same period, the Xetra Dax index had lost 17 per cent.

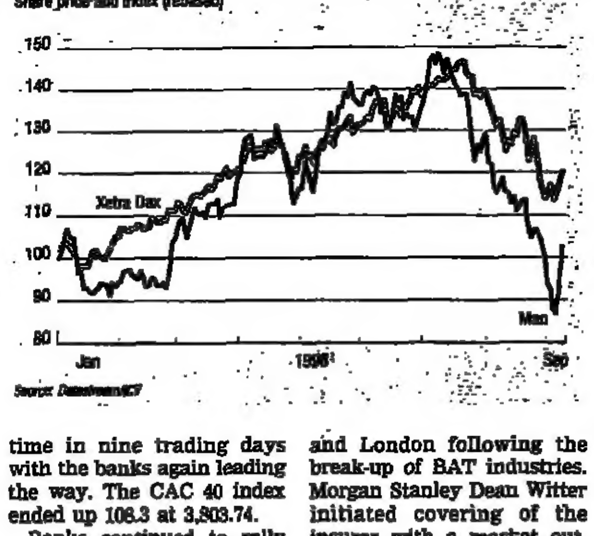
Deutsche Bank was another winner, rising DM6.30 to DM114.50 after chief executive Rolf Breuer dismissed as rubbish suggestions that the bank was suffering trading losses as a result of the Russian crisis.

On a more positive note, the bank signalled that it was taking a more aggressive approach in its planned US expansion, saying it must make an acquisition and could do so quickly if it found the right partner.

Dresdner Bank rose DM3.40 to DM76.50 and Commerzbank DM1.05 to DM53.

Insurer Allianz added DM17 to DM534 amid reports that it was in negotiations with the French government to buy a stake in Credit Lyonnais. Allianz declined to comment beyond saying it had expressed interest in the French group in the past. Reinsurer Munich Re also gained, up DM54 to DM740.

**PARIS** punched up through 3,800 for the first time in nine trading days with the banks again leading the way. The CAC 40 index ended up 108.3 at 3,803.74.




Banks continued to rally in heavy volume on positive broker comment. Société Générale gained FFr54 at FFr994 in turnover of FFr500m and BNP FFr25.50 or 6.9 per cent to FFr393.

Motors were in the fast lane too as the sector's results season approaches. Renault gained FFr18.80 or 7.3 per cent at FFr266.10 and Peugeot, which set the results ball rolling today, added FFr41 at FFr971.

Legrand shot ahead FFr59 to FFr1,453 following top-of-the-range first-half results. Alcatel gained FFr69 or 7 per cent to FFr1,052.

Axa-UAP, weak on Monday on worries about US stock market earnings, rebounded on an Australian press story that the group was teeing up the disposal of its big stake in Australian insurer, National Mutual. Axa denied the story. The shares rose FFr12 to FFr596.

**ZURICH** continued the recovery that began last week and the SMI index finished 185.1 or 2.7 per cent higher at 7,033.8.

SGS, the inspections and testing group, plunged more than 20 per cent before recovering slightly after Monday's news that first-half profit dived 91 per cent. The company, which also forecast a substantial 1998 loss, ended SFr313 lower at SFr1,266.

Allied Zurich put on SFr49 to SFr899 as the share made its market debut in Zurich and London following the break-up of BAT Industries. Morgan Stanley Dean Witter initiated covering of the insurer with a market outperformer rating and set a price target of SFr975.

Holderbank gained SFr50 to SFr1,650 after the cement group reported a 32 per cent rise in first-half net profit and forecast significantly higher full-year profits.

Among banks, CS Group, which reports first-half figures today, picked up from Monday's low for the year to close SFr11.75 or 5.1 per cent higher at SFr241.50. Analysts said the market expected the financial services group to elaborate on losses in emerging markets due to the financial crisis in Russia. UBS rose SFr18.50 to SFr498.50.

**AMSTERDAM** saw a number of strong share movements but volume was moderate at best. Akzo Nobel and ING rose more than 4 per cent and the AEX index ended up 19.46 at 1,095.68.

Akzo pushed Fl 3.30 higher to Fl 80.80 helped by comments from Goldman Sachs suggesting the stock looked distinctly undervalued. ING gained Fl 6.20 to Fl 118.20, while elsewhere among financials Aegon rose Fl 4.50 to Fl 183.50. Philips added Fl 3.90 at Fl 125.90.

Heineken remained indecisive ahead of Friday's interim results statement. The shares, off 5.3 per cent on Monday, rallied modestly, ading Fl 1.10 to Fl 86.30.

KPN, the telecoms leader hit lately by the threat of tariff reductions, was the heaviest faller, losing Fl 2.30 at Fl 69. Shipping group Nedlloyd slipped 10 cents to Fl 30.40 on dollar concerns.

**MADRID** saw bank sentiment spin round as investors took a rosier view of Latin American lending on the basis that the next move for US interest rates would be down. BBV surged Pta130 or 7.3 per cent to Pta1,940 and Santander Pta175 to Pta2,700. Telefónica, another share to underperform in recent sessions, added Pta130 at Pta5,780. The general index rose 21.32 to 771.08.

**Written and edited by Michael Morgan, Jeffrey Brown, Peter Hall and Paul Gregan**

## Gold backers take profits

**SOUTH AFRICA**

Shares in Johannesburg continued to climb in spite of a round of profit-taking in the golds sector late in the session.

The all share index ended the day up 95.7 at 999.5.

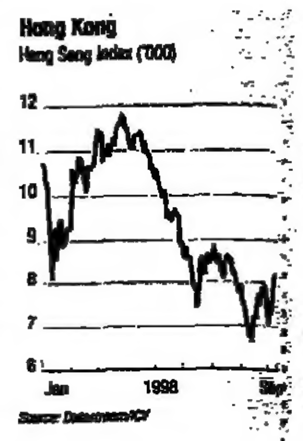
Industrials rose 1.9 per cent to 5,835.1 and financials gained 2 per cent to 6,903.9. But golds, up more than 20 per cent in two days, lost much of their earlier momentum.

The sector index ended 0.4 per cent better at 999.5.

EMERGING MARKET FOCUS

# Buying binge pays dividends

Hong Kong saluted the government's technical measures to restore stability to its turbulent markets with a 7.9 per cent surge on Monday, almost matching the 8.4 per cent achieved by the Hang Seng index when the government first turned buyer on August 14.




The measures have been helped by outside factors. Malaysia's imposition of capital controls last week spooked some speculators in Hong Kong, prompting them to cover positions and beat a hasty retreat.

While Hong Kong itself has stopped many miles short of capital controls, it has endeavoured to make the lot of speculators much harder. Shares stayed firm yesterday with the benchmark adding 1.4 per cent to 8,189.25.

The well-worn strategy of attacking the Hong Kong dollar and taking profits from the subsequent fall on the stock market has been frustrated by boosting money market liquidity, which means about HK$30bn is required to move interest rates rather than the HK$2bn needed in the past.

Investors are also relieved to see the government withdraw. Its estimated $14bn buying binge has, however, left a big hangover in the substantial blue-chip stakes it now owns, such as the 8.9 per cent stake in HSBC Holdings, which at some point will be dumped back into the market.

That would mean erasing some of the 23 per cent gain notched up since the government began its buying spree less than a month ago; although erosion is likely to start before that.

"It's hard for the market to carry on going up," says Howard Gorges, managing director of South China Brokerage. "It's had a good rally, but there are too many uncertainties around the world for it to be blue-sky days."

Resistance is expected around the 8,500 level. Fundamentals remain bleak despite lower interest rates; recession means demand is still weak and with unemployment and bankruptcies rising, consumer sentiment is poor.

While the downward move on interest rates – the benchmark three-month rate is now around 8.5 per cent as against 14 to 15 per cent during August – brings relief to the banking and property sectors, both backbones of the economy, problems remain.

The increasing supply of property is likely to see prices continuing to fall. And for banks, the level of non-performing loans and provisions is expected to rise.

Robert Conlon, chief investment officer of Guinness Flight Asia – which exited the Hong Kong stock market during the government buying – says the latest measures reduce the risk premium on Hong Kong, and the benefit has fed through to China-related stocks.

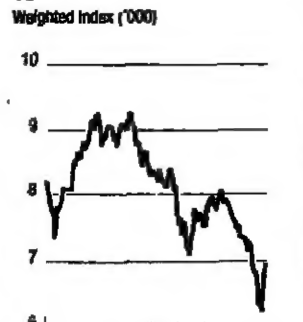
The red chips, or mainland-backed Hong Kong companies, and H shares – the Hong Kong-listed shares of former state-owned enterprises – have further gained from speculation of further mainland rate cuts.

**Louise Lucas**

# Tokyo rides a roller-coaster

**ASIA PACIFIC**

Shares in **TOKYO** endured a volatile day with the benchmark Nikkei 225 Average boosted further by short-covering in the futures market, *writes Paul Abrahams in Tokyo*.




At one stage the benchmark was more than 500 points above its low for the session of 14,766. It closed up 0.8 per cent or 123.43 at 14,913. Local strategists said government and institutional buying also supported the market.

However, the Nikkei 300, which is weighted and a more representative index, fell 0.23 per cent to 222.2. The Topix index of all first-section shares also gave up 0.14 per cent closing at 1,131.

Turnover was again heavy, with 490m shares traded. Momentum was mixed, with 612 stocks advancing and 523 declining.

The oil sector continued to advance, up 2.3 per cent, supported by the continuing strength of the yen against the dollar, the currency in which the commodity is traded. Showa Shell jumped Y36 or 5.6 per cent to Y647, Mitsubishi Oil Y6 or 3.2 per cent to Y189 and Nippon Oil 1.8 per cent at Y396.

NTT, the telecoms operator, fell Y20,000 to Y1.08m, after a report in the Financial Times that the company was planning an initial public offering for NTT DoCoMo, its mobile subsidiary.

The offering is considered a preparation for the government to sell another tranche in NTT.

Steel stocks had a difficult day. Nippon Steel dropped Y8 to Y226 in heavy trading, while Kawasaki Steel slipped Y5 to Y190.

**KUALA LUMPUR** fell steeply as investors opted to pocket some of the big gains built up this month.

The composite index fell 95.50 to 349.56, a 21.5 per cent decline that virtually eliminated the whole of Monday's advance. Volume, although down on Monday, was again heavy at 610m shares.

Brokers said profit-taking after the near-70 per cent gains achieved this month was fierce. The resumption of trading today on Singapore's OTC market was said to have affected sentiment. Government-linked shares led the way down. United Engineers fell 51 cents to M$1.85 and Tenaga Nasional 98 cents to M$3.22.

**BANGKOK** fell 8.14 or 3.7 per cent to 212.42 on the SET index. The banking sector fell 8.4 per cent as a wave of profit-taking swept through the market. Krung Thai Bank, the day's most active share, came off Bt0.90 at Bt6.10 and Thai Farmers Bank shed Bt1.50 at Bt17.75.

**TAIPEI** extended its steep recovery into a third straight session in further response to the government's moves to stimulate the market. The weighted index rose 141.53 to 6,942.26, a gain of 11 per cent since last Thursday's close.

Turnover was an active T$116bn with momentum supplied by a 3.7 per cent rise in the electronics sector, a recent underperformer.

**WELLINGTON** shrugged off bleak economic news to rise 29.02 or 1.6 per cent to 1,809.67 on the 40 capital index.

Shortly after the opening bell the government warned of economic contraction and a return to budget deficits.

Brokers said investors chose instead to concentrate on softening money market rates. NZ Telecom rose 13 cents to NZ$7.87 and Lion Nathan added 17 cents at NZ$4.50.

**KARACHI** picked up 1.9 per cent on news that a foreign aid package was in the pipeline and indications that the country was moving closer to signing a nuclear test ban treaty. The KSE 100 index closed 18.24 higher at 1,005.66.

On Monday, Sartaj Aziz, the finance minister, said that the Jeddah-based Islamic Development Bank would propose a $1.5bn funding package later in the week to help Pakistan with its external payments problems.